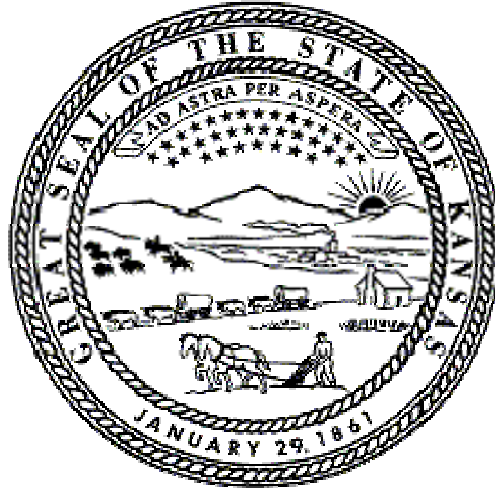


STATE OF KANSAS
Department of Administration
Division of Accounts and Reports



COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

July 1, 2003 to June 30, 2004

Duane A. Goossen, Secretary
Dale Brunton, Director



STATE OF KANSAS

Department Of Administration

Duane A. Goossen

**Secretary
of
Administration**

Dale Brunton

**Director
of
Accounts and Reports**

State of Kansas
Fiscal Year 2004 Financial Report
June 30, 2004

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INTRODUCTION



KANSAS

DALE BRUNTON, DIRECTOR

KATHLEEN SEBELIUS, GOVERNOR
DUANE GOOSSEN, SECRETARY

DEPARTMENT OF ADMINISTRATION
DIVISION OF ACCOUNTS AND REPORTS

December 30, 2004

The Honorable Kathleen Sebelius, Governor of the State of Kansas
Members of the Legislature and
Citizens of the State of Kansas:

It is my pleasure to submit to you the 51st Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2004, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This Comprehensive Annual Financial Report (CAFR) has been prepared in conformance with generally accepted accounting principles (GAAP). The objective of this is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, Management's Discussion and Analysis, the basic financial statements and notes, the Required Supplementary Information and Other Supplementary Information. The Statistical Section includes unaudited tables and financial trend information.

This report is prepared by the Department of Administration, Division of Accounts and Reports. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and activities of the State of Kansas. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

The State's financial statements have been audited by Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., P. A., two firms of licensed Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State of Kansas for the fiscal year ended June 30, 2004, are free of material misstatement. This independent audit was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards here also require the auditor to report on the State of Kansas' internal controls and compliance with legal requirements. A copy of the separately issued Single Audit Report can be obtained from the Legislative Division of Post Audit.

PROFILE OF THE GOVERNMENT

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Trial Courts. The State provides a full range of services including education, safety, social services, recreation and transportation. The annual budget serves as the foundation of the State's financial planning and control. On or before October 1, agencies are required to submit annually or biennially budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the Legislature on or before the 21st calendar day of that regular session.

FINANCIAL INFORMATION

Kansas has a centrally maintained computerized double-entry accounting system. Management is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgements by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The State also maintains budgetary restrictions and controls, which are imposed through annual appropriations and limitations, approved by the Legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenue, Capital Project, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system, which prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and reserved and designated fund balances in the financial statements included in this report.

CASH MANAGEMENT

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and high grade commercial paper to provide safety, liquidity, and yield, in that order. As a cash flow management policy, the State seeks to avoid borrowing from its own idle funds to meet expenditure obligations of the State General Fund.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Employment Security Fund, are statutorily exempted from PMIB oversight. Deposits in the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also invested by the PMIB.

RISK MANAGEMENT

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (prescription drug and dental plus three of eight medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Risk is managed by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the State buildings, the State has limited its exposure through high deductible catastrophic loss insurance.

PENSION TRUST FUND OPERATIONS

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employee Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in the Notes to the Financial Statements located in the Financial Section.

ACKNOWLEDGEMENTS

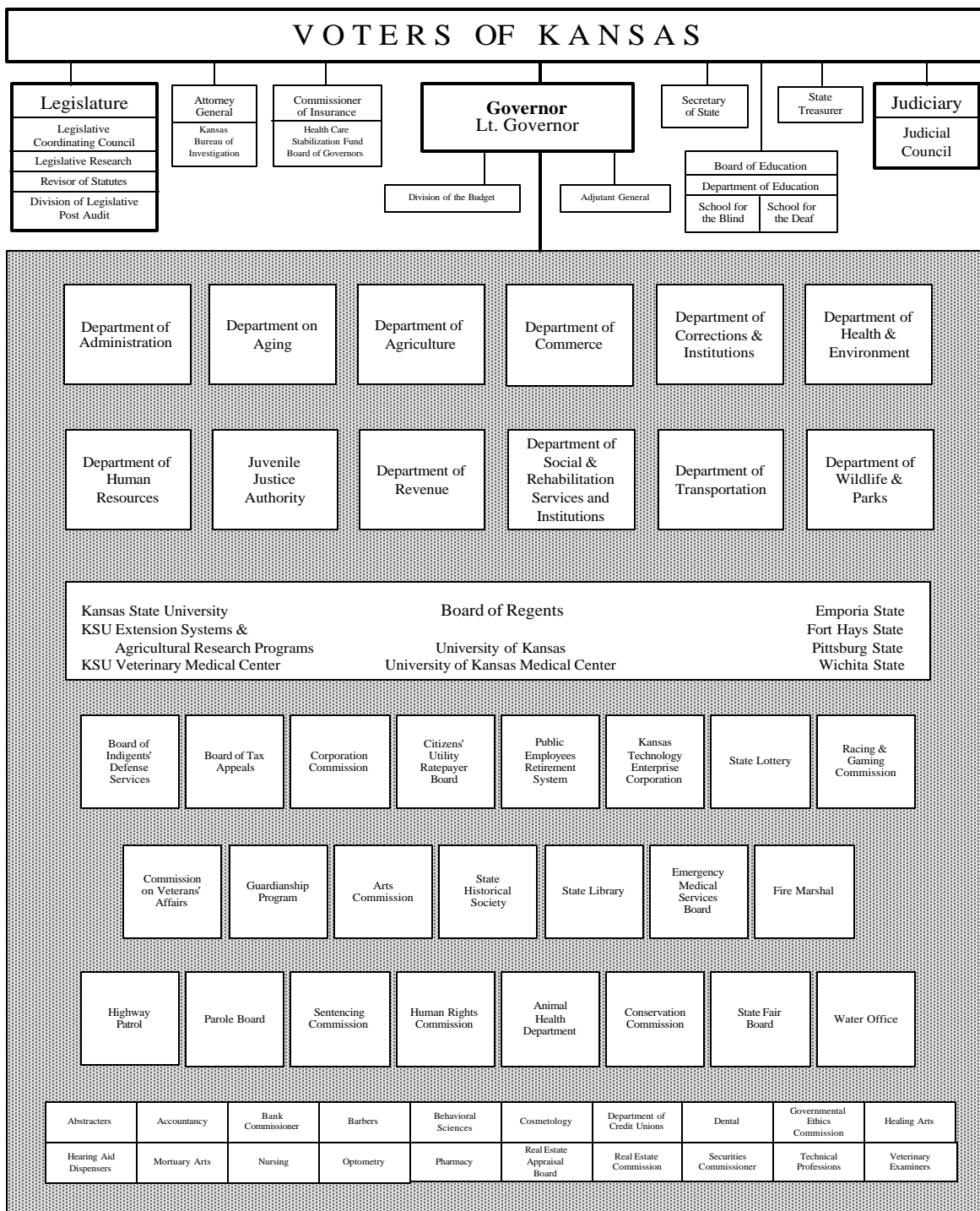
I wish to express my deepest appreciation and thanks to those on my staff responsible for the preparation of this report. It is through their dedicated effort that this report was made possible. I also wish to thank the many other individuals in the State agencies whose contributions made this report possible.

Sincerely,



Dale Brunton, Director
Division of Accounts and Reports

State of Kansas
Organizational Chart
June 30, 2004



State of Kansas
List of Selected Officials
June 30, 2004

Executive Branch

Governor
Kathleen Sebelius

Lieutenant Governor
John E. Moore

Secretary of State
Ron Thornburgh

State Treasurer
Lynn Jenkins

Attorney General
Phill Kline

Commissioner of Education
Dr. Andy Tompkins

Commissioner of Insurance
Sandy Praeger

Legislative Branch

Speaker of the House of Representatives
Doug Mays

Speaker Pro Tempore of the House of Representatives
John Ballou

President of the Senate
Dave Kerr

Vice President of the Senate
John Vratil

Chief Clerk of the House of Representatives
Janet E. Jones

Secretary of Senate
Pat Saville

Legislative Coordinating Council
Dave Kerr

Legislative Research
Alan Conroy

Judicial Branch

Supreme Court of Kansas
Chief Justice
Kay McFarland

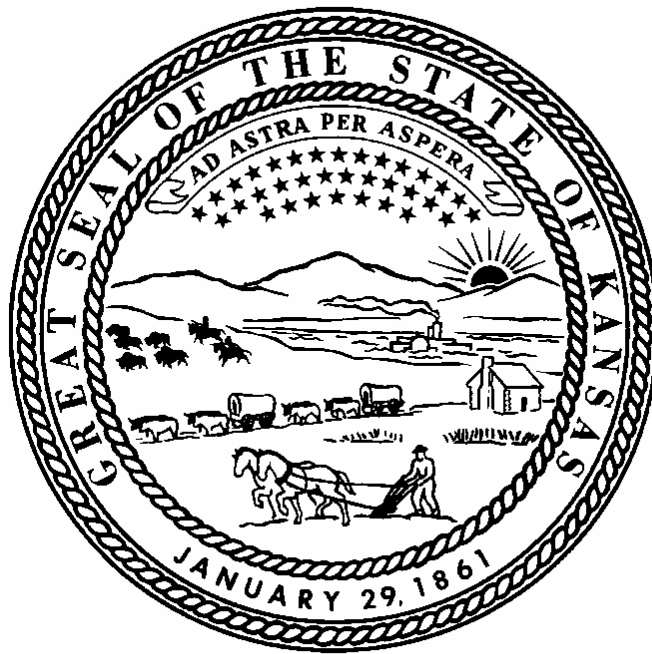
Justices
Donald L. Allegrucci
Carol A. Beier
Robert E. Davis
Robert L. Gernon
Marla J. Luckert
Lawton R. Nuss

Court of Appeals
Chief Judge
Gary W. Rulon

Judicial Council
Executive Director
Randy M. Hearrell

Judicial Administrator
Howard P. Schwartz

FINANCIAL
SECTION



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INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (State), as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six state universities which represent 48 percent and 31 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities in the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2004 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5 to 13 and the schedules of budgetary comparison, and the information needed to support the modified approach for infrastructure reporting on pages 73 through 82 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Allen, Gibbs & Houlik, L.L.C.

December 29, 2004
Wichita, Kansas

Berberich Trahan & Co., P.A.

December 29, 2004
Topeka, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the State of Kansas Comprehensive Annual Financial Report (CAFR) is provided for readers of the financial statements for the fiscal year ended June 30, 2004. This information is to be used in conjunction with the additional information furnished in the preceding letter of transmittal and with the financial statements that follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Government-wide highlights:

- The assets of the State exceeded its liabilities at fiscal year ending June 30, 2004 by \$9.5 billion (presented as "net assets"). Of this amount, \$0.9 billion was reported as unrestricted net assets, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net assets decreased by \$329 million (3.5% decrease) in fiscal year 2004. Net assets of governmental activities decreased by \$300 million (3.4% decrease), and net assets of the business-type activities decreased \$28.8 million (4.4% decrease).

Fund highlights:

- For fiscal year 2004, the governmental funds reported a combined ending fund balance of \$988 million, a increase of \$256 million in comparison with the prior year. Of the total amount, \$717 million represents the fund balance of the Transportation Fund. There is (\$414) million in the "unreserved fund balances" with substantially all being in the Transportation Fund and Transportation-Capital Project Fund. The designated balances of \$1,402 million include the reserve for inventory of \$22 million and the reserve for encumbrances of \$1,066 million.

Long-term debt:

- The State's total long-term debt obligation showed a net increase of \$775 million (18.5%) during the current year. This increase was primarily due to the increase of \$809 million in revenue bonds, \$25 million in STAR bonds, \$9 million in capital leases and \$23 million in notes payable, and was offset by a decrease of \$105 million in claims and judgements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Kansas basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *Government-wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *Government-wide Financial Statements* provide a broad view of operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the financial position to assist in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This method is similar to those used by most businesses and takes into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of State programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including education, general government, health services, judiciary services, museums, natural resources, public safety, defense, regulatory services, social services, and transportation.

Business-type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

Financial statements of the individual component units can be found in the combining statements. Addresses and other additional information about component units are presented in the notes to the financial statements. The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories uses different accounting approaches and should be interpreted differently. The three categories of funds financial statements are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental type funds. Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This information may be helpful in evaluating the government's near-term financial requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of State finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State has four governmental funds considered major funds for presentation purposes. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The four governmental funds are – the General Fund, the Transportation Fund, the Transportation-Capital Projects Fund, and the Social and Rehabilitation Services Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The State's major proprietary funds for presentation purposes are the Employment Security Fund (within the Department of Human Resources), the Water Pollution Control and Public Water Supply Revolving Loan Fund (within the Department of Health and Environment) and the Health Care Stabilization Fund.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds Financial Statements – These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The fiduciary funds are the Kansas Public Employees Retirement Fund, the Investment Trust Fund (which accounts for the transactions, assets, liabilities and fund equity of the external investment pool), The College Savings Program (a private purpose trust fund) and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which consists of schedules and related notes. Schedules include budgetary comparisons for the major funds and the Kansas Department of Transportation modified approach explanation. Comparisons can be made between the original budget, final budget, and actual revenues and expenditures. This section also includes in the notes reconciliation between budgetary basis and the accrual basis for major funds as presented in the governmental funds financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the financial position of a government. The combined net assets of the State (government and business-type activities) totaled \$9.5 billion at the end of 2004, compared to \$9.8 billion at the end of the previous year.

The largest portion of net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Kansas
Management's Discussion and Analysis
June 30, 2004

State of Kansas Net Assets – Primary Government
(expressed in thousands)

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|----------------------------------------------------|--------------------------------|---------------------|---------------------------------|-------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Current assets | \$ 2,534,056 | \$ 2,315,649 | \$ 1,426,802 | \$ 1,420,394 | \$ 3,960,858 | \$ 3,736,043 |
| Capital assets | 10,122,160 | 9,757,528 | 477 | 10 | 10,122,637 | 9,757,538 |
| Other assets | <u>13,715</u> | <u>6,467</u> | <u>15,321</u> | <u>16,354</u> | <u>29,036</u> | <u>22,821</u> |
| Total assets | <u>12,669,931</u> | <u>12,079,644</u> | <u>1,442,600</u> | <u>1,436,758</u> | <u>14,112,531</u> | <u>13,516,402</u> |
| Non-current liabilities | 1,897,493 | 1,353,633 | 721,306 | 694,692 | 2,618,799 | 2,048,325 |
| Other liabilities | <u>1,583,421</u> | <u>1,654,984</u> | <u>74,166</u> | <u>66,142</u> | <u>1,657,587</u> | <u>1,721,126</u> |
| Total liabilities | <u>3,480,914</u> | <u>3,008,617</u> | <u>795,472</u> | <u>760,834</u> | <u>4,276,386</u> | <u>3,769,451</u> |
| Invested in capital assets, net of related debt | 7,855,107 | 7,758,504 | 479 | 9 | 7,855,586 | 7,758,513 |
| Restricted | 142,188 | 118,013 | 589,332 | 675,915 | 731,520 | 793,928 |
| Unrestricted | <u>831,722</u> | <u>1,194,510</u> | <u>57,317</u> | <u>0</u> | <u>889,039</u> | <u>1,194,510</u> |
| Total net assets | <u>\$ 8,829,017</u> | <u>\$ 9,071,027</u> | <u>\$ 647,128</u> | <u>\$ 675,924</u> | <u>\$ 9,476,145</u> | <u>\$ 9,746,951</u> |

An additional portion of net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the ongoing obligations to citizens and creditors. Internally imposed designations of resources are not represented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

State of Kansas
Management's Discussion and Analysis
June 30, 2004

Changes in Net Assets

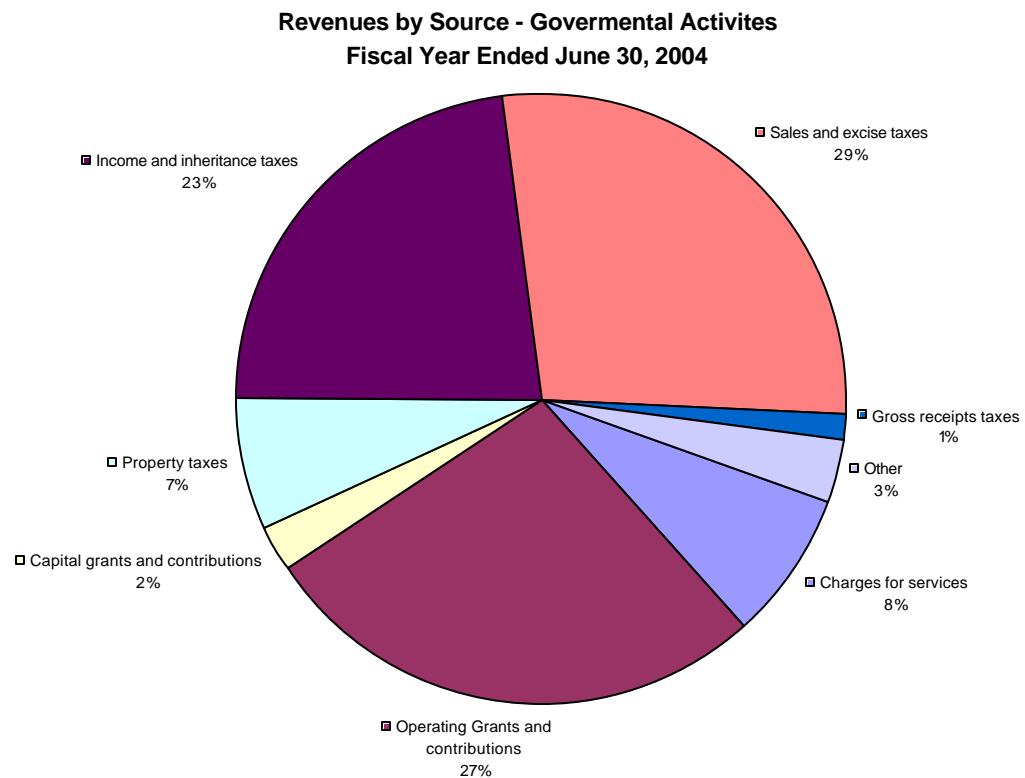
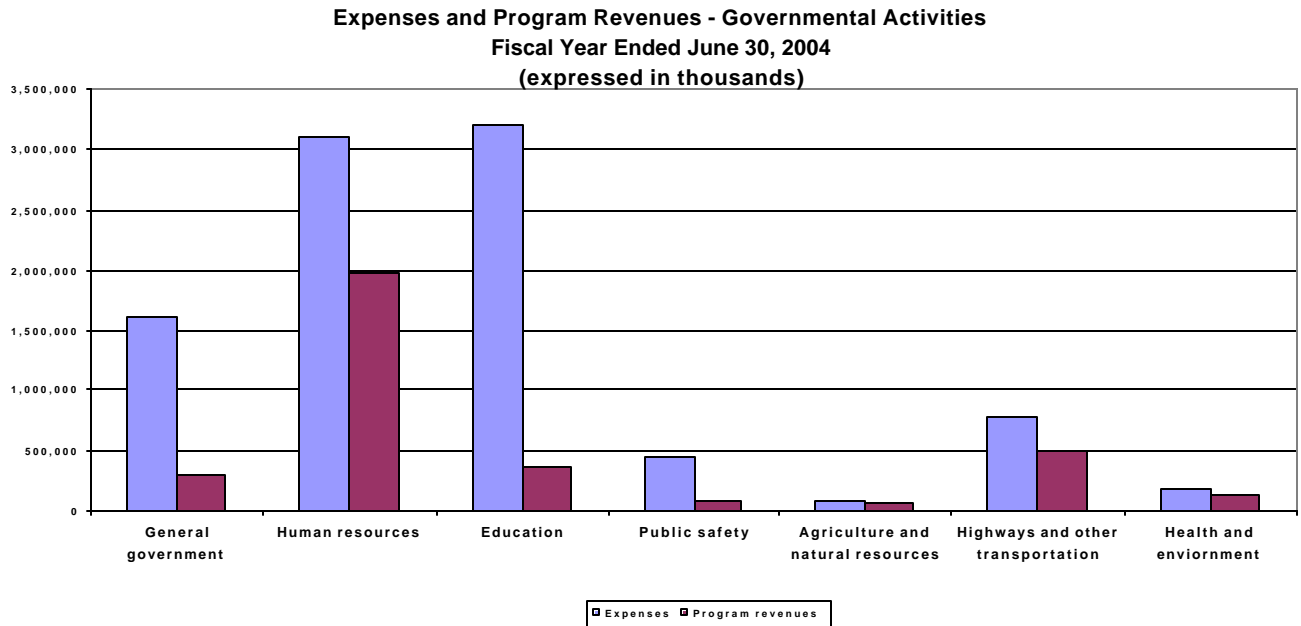
Net assets decreased by \$329 million or 3.5%. Approximately 54.8% of the total revenue came from taxes, while 28.7% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12.7% of the total revenues. Expenses cover a range of services. The largest expenses were for general (public schools), social services, and highways.

State of Kansas Changes in Net Assets – Primary Government
(expressed in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 698,979 | \$ 511,329 | \$ 552,651 | \$ 495,087 | \$ 1,251,630 | \$ 1,006,416 |
| Operating grants and contributions | 2,499,196 | 2,438,009 | 87,944 | 102,655 | 2,587,140 | 2,540,664 |
| Capital grants and contributions | 204,555 | 287,825 | 32,677 | 9,620 | 237,232 | 297,445 |
| General revenues: | | | | | | |
| Taxes | | | | | | |
| Property taxes | 648,604 | 446,611 | 0 | 0 | 648,604 | 446,611 |
| Income and inheritance taxes | 2,104,072 | 1,936,916 | 0 | 0 | 2,104,072 | 1,936,916 |
| Sales and excise taxes | 2,510,227 | 2,496,744 | 0 | 0 | 2,510,227 | 2,496,744 |
| Gross receipts taxes | 127,953 | 115,282 | 0 | 0 | 127,953 | 115,282 |
| Investment earnings | 11,437 | 13,422 | 28,290 | (2,190) | 39,727 | 11,232 |
| Other revenue | <u>300,462</u> | <u>196,567</u> | <u>28,024</u> | <u>135,938</u> | <u>328,486</u> | <u>332,505</u> |
| Total revenues | <u>9,105,485</u> | <u>8,442,705</u> | <u>729,586</u> | <u>741,110</u> | <u>9,835,071</u> | <u>9,183,815</u> |
| Expenses: | | | | | | |
| General government | 1,615,560 | 1,147,838 | 0 | 0 | 1,615,560 | 1,147,838 |
| Human resources | 3,106,382 | 2,804,932 | 0 | 0 | 3,106,382 | 2,804,932 |
| Education | 3,201,981 | 3,125,520 | 0 | 0 | 3,201,981 | 3,125,520 |
| Public safety | 438,540 | 446,867 | 0 | 0 | 438,540 | 446,867 |
| Agriculture and natural resources | 88,870 | 92,466 | 0 | 0 | 88,870 | 92,466 |
| Highways and other transportation | 777,697 | 798,083 | 0 | 0 | 777,697 | 798,083 |
| Health and environment | 176,436 | 174,249 | 0 | 0 | 176,436 | 174,249 |
| Water pollution and safety | 0 | 0 | 28,975 | 24,951 | 28,975 | 24,951 |
| Health care stabilization | 0 | 0 | 33,874 | 34,955 | 33,874 | 34,955 |
| Employment security | 0 | 0 | 468,413 | 488,184 | 468,413 | 488,184 |
| Workers' compensation | 0 | 0 | 2,842 | (38,165) | 2,842 | (38,165) |
| Lottery | 0 | 0 | 154,774 | 140,103 | 154,774 | 140,103 |
| Intergovernmental transfer program | <u>0</u> | <u>0</u> | <u>1,210</u> | <u>35,953</u> | <u>1,210</u> | <u>35,953</u> |
| Total expenses | 9,405,466 | 8,589,955 | 690,088 | 685,981 | 10,095,554 | 9,275,936 |
| Increase (decrease) in net assets before transfers | (368,275) | (147,250) | 39,498 | 55,129 | (328,777) | (92,121) |
| Transfers | <u>68,294</u> | <u>121,854</u> | <u>(68,294)</u> | <u>(122,440)</u> | <u>0</u> | <u>(586)</u> |
| Change in net assets | (299,981) | (25,396) | (28,796) | (67,311) | (328,777) | (92,707) |
| Net assets, beginning of year | 9,071,027 | 9,137,924 | 1,678,528 | 686,547 | 10,749,555 | 9,824,471 |
| Revisions to beginning net assets | <u>57,971</u> | <u>(41,501)</u> | <u>(1,002,604)</u> | <u>56,688</u> | <u>(944,633)</u> | <u>15,187</u> |
| Net assets, beginning of year (restated) | <u>9,128,998</u> | <u>9,096,423</u> | <u>675,924</u> | <u>743,235</u> | <u>9,804,922</u> | <u>9,839,658</u> |
| Net assets, end of year | <u>\$ 8,829,017</u> | <u>\$ 9,071,027</u> | <u>\$ 647,128</u> | <u>\$ 675,924</u> | <u>\$ 9,476,145</u> | <u>\$ 9,746,951</u> |

Governmental Activities

Governmental activities decreased net assets by \$300 million in fiscal year 2004. For the State's governmental activities a comparison of the cost of services by function along with the program revenues is shown below:



Business-Type Activities

The State's business-type activities decreased the net assets of the State by \$29 million.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For fiscal year 2004, the governmental funds reported a combined ending fund balance of \$988 million, a increase of \$256 million in comparison with the prior year. Part of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior fiscal year in the amount of \$1,066 million or for inventory in the amount of \$22 million.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was a \$115 million, while the total fund balance reached \$134 million. As a measure of liquidity of the General Fund, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.32 percent of total General Fund expenditures, while total fund balance represents 2.70 percent of that same amount. The fund balance of the General Fund increased by \$208 million during the current fiscal year.

Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements.

As discussed in the business-type activities above, the State's net assets decreased by \$28.8 million as a result of operations in the proprietary funds. This resulted from a \$60.3 million decrease (15.4 % from prior year) in net assets by the Unemployment Insurance Fund and an increase of net assets of \$34.2 million (14.1%) by the State's program for making loans to local government units for water pollution and public water supply projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences existed between the original budget and the final budget. Revenue estimates were lowered by approximately \$75 million and expenditure estimates were also lowered by approximately \$192 million. The original estimates provided for an excess of revenues over expenditures of a negative \$31 million. The final budget provided for an excess of \$86 million of revenues over expenditures. In reality, fiscal year 2004 was closed with an excess of revenues over expenditures of \$202 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

State investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$0.1 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Kansas Department of Transportation used the modified approach for valuing their infrastructure. The roadways' conditions are assessed using a pavement management system. The bridges' conditions are assessed using the Pontis Bridge Management System. The conditions for the roadways and the bridges exceeded the Department's policy for minimum condition levels.

The total increase in the investment in capital assets for its governmental and business-type activities for the current fiscal year was about 3.6 percent in terms of net book value. The majority of capital asset expenditures were used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$71 million. Additional information on the capital assets can be found in Note III of the notes to the financial statements of this report.

Debt Administration

The State of Kansas does not have the statutory authority to issue general obligation bonds. The Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas. It was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

The total long-term bond debt obligations increased by \$809 million during the current fiscal year. The key factor in this increase was the issuance of \$648 million for Highway Bonds, KDOT Series 2003 A & B, 2003 C, and 2004A, and \$500 million in KPERS Retirement System Bonds Series 2004 C.

Additional information on long-term debt obligations can be found in Note III of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

According to the Kansas Department of Human Resources *Kansas Labor Market Information News Release* for July 2004, employment in the State of Kansas for June 2004 is improving. Compared to June 2003, employment increased by 69,275 jobs. The unemployment rate was 4.9 percent for June 2004, compared to 5.9 percent in June 2003. Overall, Kansas employment is expected to increase by 14.3 percent from the year 2000 to 2010. (Sept. 2004 Kansas Economic Information, Center for Economic Development and Business Research, Vol. XXXIV, No. 9)

The Kansas economy is expected to continue the trend of subdued, but positive growth through calendar year 2006. The national economy is also expected to grow at a slower pace over the next two years. The University of Kansas Policy Research Institute reports 2003 per-capita personal income was \$29,935 and ranked 26th of all the states. The Kansas Department of Commerce reports the cost of doing business in Kansas is 94.9 when compared to the national average of 100.0.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of State finances for all of Kansas's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate State accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Dale Brunton, Director of Accounts and Reports
900 S.W. Jackson, Room 351S
Landon State Office Building
Topeka, KS 66612-1248

Financial Statements

State of Kansas
Financial Statements
June 30, 2004

State of Kansas
Government Wide - Statement of Net Assets
June 30, 2004
(expressed in thousands)

| | Primary Government | | | |
|------------------------------------------------------------------|----------------------------|-----------------------------|--------------|--------------------|
| | Governmental Activities | Business-Type Activities | Totals | Component Units |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,039,577 | \$ 43,620 | \$ 1,083,197 | \$ 407,039 |
| Investments | 518,723 | 318,658 | 837,381 | 1,556,083 |
| Receivables (net) | 799,887 | 612,644 | 1,412,531 | 272,048 |
| Due from primary government | | | | |
| Investment in direct financing leases, due within one year | 0 | 0 | 0 | 18,860 |
| Investment in direct financing leases, due in more than one year | 0 | 0 | 0 | 268,805 |
| Internal balances | 1,500 | (1,500) | 0 | 0 |
| Inventories | 22,685 | 1,867 | 24,552 | 12,660 |
| Other current assets | 0 | 0 | 0 | 8,440 |
| Restricted cash and cash equivalents | 151,684 | 367,785 | 519,469 | 26,140 |
| Restricted investments | 0 | 83,728 | 83,728 | 27,565 |
| Capital assets (net of accumulated depreciation) | 1,089,715 | 477 | 1,090,192 | 1,261,190 |
| Infrastructure | 9,032,445 | 0 | 9,032,445 | 0 |
| Other non-current assets | 13,715 | 15,321 | 29,036 | 19,574 |
| Total assets | 12,669,931 | 1,442,600 | 14,112,531 | 3,878,404 |
| LIABILITIES | | | | |
| Accounts payable and other current liabilities | 844,060 | 22,492 | 866,552 | 320,754 |
| Due to component unit | | | | |
| Lease revenue bonds payable, due within one year | 18,860 | 0 | 18,860 | 0 |
| Lease revenue bonds payable, due in more than one year | 268,805 | 0 | 268,805 | 0 |
| Deferred revenue | 55,163 | 0 | 55,163 | 69,019 |
| Bonds payable on demand | 608,115 | 0 | 608,115 | 0 |
| Noncurrent liabilities | | | | |
| Due within one year | 148,418 | 51,674 | 200,092 | 86,189 |
| Due in more than one year | 1,877,679 | 567,011 | 2,444,690 | 677,569 |
| Claims and judgements | 19,814 | 154,295 | 174,109 | 0 |
| Total liabilities | 3,840,914 | 795,472 | 4,636,386 | 1,153,531 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 7,855,107 | 479 | 7,855,586 | 977,944 |
| Restricted for: | | | | |
| Capital projects | 0 | 0 | 0 | 95,344 |
| Debt service | 125,918 | 0 | 125,918 | 40,990 |
| Other purposes | 16,270 | 589,332 | 605,602 | 1,496,768 |
| Unrestricted | 831,722 | 57,317 | 889,039 | 113,827 |
| Total net assets | \$ 8,829,017 | \$ 647,128 | \$ 9,476,145 | \$ 2,724,873 |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas

Government Wide - Statement of Activities

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------------|----------------------|-------------------------|---------------------|-------------------|
| | | Charges for Services | Operating Grants | Capital Grants |
| 1 Primary government: | | | | |
| 2 Governmental activities: | | | | |
| 3 General government | \$ 1,615,560 | \$ 199,464 | \$ 99,176 | \$ 0 |
| 4 Human resources | 3,106,382 | 247,046 | 1,735,421 | 335 |
| 5 Education | 3,201,981 | 4,211 | 355,199 | 5 |
| 6 Public safety | 438,540 | 20,438 | 59,030 | 0 |
| 7 Agriculture and natural resources | 88,870 | 42,660 | 15,456 | 0 |
| 8 Highways and other transportation | 777,697 | 160,671 | 128,593 | 204,215 |
| 9 Health and environment | 176,436 | 24,489 | 106,321 | 0 |
| 10 Total governmental activities | <u>9,405,466</u> | <u>698,979</u> | <u>2,499,196</u> | <u>204,555</u> |
| 11 Business-type activities: | | | | |
| 12 Water pollution and safety | 28,975 | 17,957 | 0 | 32,677 |
| 13 Health care stabilization | 33,874 | 22,236 | 0 | 0 |
| 14 Employment security | 468,413 | 282,951 | 87,944 | 0 |
| 15 Workers' compensation | 2,842 | 3,859 | 0 | 0 |
| 16 Lottery | 154,774 | 225,457 | 0 | 0 |
| 17 Intergovernmental transfer program | 1,210 | 191 | 0 | 0 |
| 18 Total business-type activities | <u>690,088</u> | <u>552,651</u> | <u>87,944</u> | <u>32,677</u> |
| 19 Total primary government | <u>\$ 10,095,554</u> | <u>\$ 1,251,630</u> | <u>\$ 2,587,140</u> | <u>\$ 237,232</u> |
| 20 | | | | |
| 21 Component units: | | | | |
| 22 Kansas Development Finance Authority | \$ 1,222 | \$ 1,452 | \$ 0 | \$ 0 |
| 23 Kansas Technology Enterprise Corporation | 14,422 | 1,410 | 13,245 | 0 |
| 24 State University System | 2,106,142 | 920,351 | 302,929 | 2,881 |
| 25 Kansas Housing Resources Corporation | <u>60,218</u> | <u>3,396</u> | <u>1,070</u> | <u>0</u> |
| 26 Total component units | <u>\$ 2,182,004</u> | <u>\$ 926,609</u> | <u>\$ 317,244</u> | <u>\$ 2,881</u> |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

| Net (Expense) Revenue and Changes in Net Assets | | | | |
|-------------------------------------------------|-----------------------------|-----------------------|---------------------|---------------------|
| Primary Government | | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units | |
| | | | | 1 |
| | | | | 2 |
| \$ (1,316,920) | \$ 0 | \$ (1,316,920) | \$ 0 | 3 |
| (1,123,580) | 0 | (1,123,580) | 0 | 4 |
| (2,842,566) | 0 | (2,842,566) | 0 | 5 |
| (359,072) | 0 | (359,072) | 0 | 6 |
| (30,754) | 0 | (30,754) | 0 | 7 |
| (284,218) | 0 | (284,218) | 0 | 8 |
| <u>(45,626)</u> | <u>0</u> | <u>(45,626)</u> | <u>0</u> | 9 |
| <u>(6,002,736)</u> | <u>0</u> | <u>(6,002,736)</u> | <u>0</u> | 10 |
| | | | | 11 |
| 0 | 21,659 | 21,659 | 0 | 12 |
| 0 | (11,638) | (11,638) | 0 | 13 |
| 0 | (97,518) | (97,518) | 0 | 14 |
| 0 | 1,017 | 1,017 | 0 | 15 |
| 0 | 70,683 | 70,683 | 0 | 16 |
| <u>0</u> | <u>(1,019)</u> | <u>(1,019)</u> | <u>0</u> | 17 |
| <u>0</u> | <u>(16,816)</u> | <u>(16,816)</u> | <u>0</u> | 18 |
| <u>\$ (6,002,736)</u> | <u>\$ (16,816)</u> | <u>\$ (6,019,552)</u> | <u>\$ 0</u> | 19 |
| | | | | 20 |
| | | | | 21 |
| \$ 0 | \$ 0 | \$ 0 | \$ 230 | 22 |
| 0 | 0 | 0 | 233 | 23 |
| 0 | 0 | 0 | (879,981) | 24 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>(55,752)</u> | 25 |
| <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ (935,270)</u> | 26 |
| General revenues: | | | | |
| Taxes: | | | | |
| Property tax | \$ 648,604 | \$ 0 | \$ 648,604 | \$ 0 |
| Income and inheritance tax | 2,104,072 | 0 | 2,104,072 | 0 |
| Sales and excise tax | 2,510,227 | 0 | 2,510,227 | 2 |
| Gross receipts tax | 127,953 | 0 | 127,953 | 419 |
| Investment earnings | 11,437 | 28,290 | 39,727 | 210,582 |
| Other revenue | 232,168 | 28,024 | 260,192 | 1,023,554 |
| Transfers | <u>68,294</u> | <u>(68,294)</u> | <u>0</u> | <u>1</u> |
| Total general revenues | <u>5,702,755</u> | <u>(11,980)</u> | <u>5,690,775</u> | <u>1,234,558</u> |
| Change in net assets | <u>(299,981)</u> | <u>(28,796)</u> | <u>(328,777)</u> | <u>299,288</u> |
| Net assets - beginning | 9,071,027 | 1,678,528 | 10,749,555 | 13,840 |
| Revisions to beginning net assets | <u>57,971</u> | <u>(1,002,604)</u> | <u>(944,633)</u> | <u>2,411,745</u> |
| Net assets - beginning (restated) | <u>9,128,998</u> | <u>675,924</u> | <u>9,804,922</u> | <u>2,425,585</u> |
| Net assets - ending | <u>\$ 8,829,017</u> | <u>\$ 647,128</u> | <u>\$ 9,476,145</u> | <u>\$ 2,724,873</u> |

State of Kansas
Financial Statements
June 30, 2004

State of Kansas
Balance Sheet - Governmental Funds
June 30, 2004
(expressed in thousands)

| | <u>General</u> | <u>Social and Rehabilitation</u> | <u>Transportation</u> | <u>Transportation- Capital Projects</u> | <u>Other Governmental</u> |
|------------------------------------------------|-------------------|--------------------------------------|-----------------------|---------------------------------------------|-------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 363,581 | \$ 72,929 | \$ 181,125 | \$ 0 | \$ 387,929 |
| Investments | 0 | 0 | 414,205 | 0 | 104,516 |
| Receivables, net | 323,713 | 243,034 | 88,994 | 0 | 144,144 |
| Due from other funds | 3,500 | 0 | 0 | 0 | 5,164 |
| Inventories | 6,412 | 0 | 15,766 | 0 | 0 |
| Advances to other funds | 0 | 80 | 125,188 | 0 | 79,888 |
| Restricted cash and cash equivalents | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>151,685</u> |
| Total assets | <u>\$ 697,206</u> | <u>\$ 316,043</u> | <u>\$ 825,278</u> | <u>\$ 0</u> | <u>\$ 873,326</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable and other current liabilities | \$ 320,477 | \$ 249,283 | \$ 71,882 | \$ 0 | \$ 175,289 |
| Due to other funds | 1,560 | 267 | 0 | 0 | 55 |
| Deferred revenue | 40,748 | 2,044 | 36,812 | 0 | 13,493 |
| Advances from other funds | 200,482 | 2,939 | 0 | 0 | 136 |
| Bonds payable on demand | <u>0</u> | <u>0</u> | <u>0</u> | <u>608,115</u> | <u>0</u> |
| Total liabilities | <u>563,267</u> | <u>254,533</u> | <u>108,694</u> | <u>608,115</u> | <u>188,973</u> |
| Fund balances: | | | | | |
| Reserved for debt service | 0 | 0 | 0 | 0 | 112,572 |
| Reserved for inventory | 6,411 | 0 | 15,766 | 0 | 0 |
| Reserved for encumbrances | 12,378 | 15,683 | 870,667 | 0 | 167,582 |
| Reserved for advances to other funds | 0 | 80 | 125,188 | 0 | 79,888 |
| Unreserved | <u>115,150</u> | <u>45,747</u> | <u>(295,037)</u> | <u>(608,115)</u> | <u>324,311</u> |
| Total fund balance | <u>133,939</u> | <u>61,510</u> | <u>716,584</u> | <u>(608,115)</u> | <u>684,353</u> |
| Total liabilities and fund balance | <u>\$ 697,206</u> | <u>\$ 316,043</u> | <u>\$ 825,278</u> | <u>\$ 0</u> | <u>\$ 873,326</u> |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Total Governmental |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Reconciliation to the Statement of Net Assets: | |
| Total fund balance from previous page | \$ 988,271 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | |
| Infrastructure | 9,032,445 |
| Capital assets | 1,089,715 |
| Other non-current assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 13,715 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | (3,167) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Deferred revenue (not on statement of net assets) | 55,163 |
| Long term liabilities (amount not in funds) | (2,026,097) |
| Compensated absences - long term liabilities (amt not in funds) | (93,740) |
| Due to component unit (lease revenue bonds payable) | (287,665) |
| Other long-term liabilities (amount not in funds) | 60,377 |
| Net assets of governmental activities as reported on the Statement of Net Assets. | <u>\$ 8,829,017</u> |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | General | Social and Rehabilitation | Transportation | Transportation- Capital Projects | Other Governmental | Total Governmental |
|---------------------------------------------------------|-------------------|------------------------------|-------------------|-------------------------------------|-----------------------|-----------------------|
| Revenues: | | | | | | |
| Property tax | \$ 615,818 | \$ 0 | \$ 0 | \$ 0 | \$ 38,056 | \$ 653,874 |
| Income and inheritance tax | 2,110,953 | 0 | 0 | 0 | 10,903 | 2,121,856 |
| Sales and excise tax | 2,151,654 | 2,206 | 369,755 | 0 | 27,917 | 2,551,532 |
| Gross receipts tax | 108,481 | 0 | 0 | 0 | 19,468 | 127,949 |
| Charges for services | 53,698 | 274,222 | 160,122 | 0 | 258,953 | 746,995 |
| Operating grants | 45,710 | 1,628,056 | 120,027 | 0 | 694,902 | 2,488,695 |
| Capital grants | 0 | 0 | 207,241 | 0 | 1,213 | 208,454 |
| Investment earnings | 7,360 | 170 | 0 | 0 | 3,943 | 11,473 |
| Other revenues | 15,827 | 141,644 | 12,427 | 0 | 139,217 | 309,115 |
| Total revenues | 5,109,501 | 2,046,298 | 869,572 | 0 | 1,194,572 | 9,219,943 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 915,151 | 0 | 0 | 0 | 784,003 | 1,699,154 |
| Human resources | 917,375 | 1,771,437 | 0 | 0 | 422,812 | 3,111,624 |
| Education | 2,764,603 | 0 | 0 | 0 | 442,214 | 3,206,817 |
| Public safety | 315,511 | 0 | 0 | 0 | 136,000 | 451,511 |
| Agriculture and natural resources | 15,177 | 0 | 0 | 0 | 73,984 | 89,161 |
| Highways and other transportation | 0 | 0 | 1,008,612 | 0 | 9,859 | 1,018,471 |
| Health and environment | 25,997 | 0 | 0 | 0 | 160,656 | 186,653 |
| Debt service: | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 73,448 | 73,448 |
| Interest | 0 | 0 | 0 | 0 | 82,589 | 82,589 |
| Total expenditures | 4,953,814 | 1,771,437 | 1,008,612 | 0 | 2,185,565 | 9,919,428 |
| Excess of revenues over (under) expenditures | 155,687 | 274,861 | (139,040) | 0 | (990,993) | (699,485) |
| Other financing sources (uses): | | | | | | |
| Proceeds from sale of debt | 0 | 0 | 0 | 675,739 | 645,678 | 1,321,417 |
| Transfers, net | 52,016 | (242,338) | 62,554 | (261,703) | 466,691 | 77,220 |
| Other financing sources (uses) | 0 | 0 | 0 | (414,036) | (28,745) | (442,781) |
| Total other financing sources (uses) | 52,016 | (242,338) | 62,554 | 0 | 1,083,624 | 955,856 |
| Net change in fund balances | 207,703 | 32,523 | (76,486) | 0 | 92,631 | 256,371 |
| Fund balances, beginning of year | (34,523) | 20,725 | 792,924 | (608,115) | 503,383 | 674,394 |
| Revisions to beginning fund balances | (38,774) | 8,262 | 0 | 0 | 88,339 | 57,827 |
| Fund balances, beginning of year (restated) | (73,297) | 28,987 | 792,924 | (608,115) | 591,722 | 732,221 |
| Change in reserves for inventory | (467) | 0 | 146 | 0 | 0 | (321) |
| Fund balances, end of year | \$ 133,939 | \$ 61,510 | \$ 716,584 | \$ (608,115) | \$ 684,353 | \$ 988,271 |

(Continued)

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds - Continued
For the Fiscal Year Ended June 30, 2004
(expressed in thousands)**

| | <u>Total Governmental</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Reconciliation to the Statement of Activities: | |
| Total net change in fund balance from previous page | \$ 256,371 |
| Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets. | 73,447 |
| Defeased debt is reported as an other financing use in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets. | 442,781 |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period. | |
| Capital assets | 121,169 |
| Depreciation expense | (31,933) |
| In the Statement of Activities, only the gain on the sale of capital assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. | |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. | (112,250) |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets: | |
| Revenue bond proceeds | (1,271,846) |
| Accrued interest on revenue bonds | (27,334) |
| Bond premiums and discounts | (3,176) |
| Loan proceeds | 0 |
| Other borrowings | (19,062) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | 300,046 |
| Interest expense | (13,808) |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. | (14,386) |
| Changes in Net Assets of Governmental Activities as reported on the Statement of Activities | <u><u>\$ (299,981)</u></u> |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas
Statement of Net Assets - Proprietary Funds
June 30, 2004
(expressed in thousands)

| | Business-Type Activities | | | | | Governmental Activities - Internal Service Funds |
|--------------------------------------------------|--------------------------|---------------------------|------------------------------|-------------------|--------------|-----------------------------------------------------------|
| | Water Funds | Unemployment Insurance | Health Care Stabilization | Nonmajor funds | Totals | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 24,172 | \$ 0 | \$ 2,695 | \$ 16,753 | \$ 43,620 | \$ 34,015 |
| Investments | 0 | 0 | 200,402 | 0 | 200,402 | 0 |
| Receivables, net | 9,009 | 3,119 | 5,205 | 7,347 | 24,680 | 0 |
| Inventories | 0 | 0 | 0 | 1,867 | 1,867 | 507 |
| Total current assets | 33,181 | 3,119 | 208,302 | 25,967 | 270,569 | 34,522 |
| Noncurrent assets: | | | | | | |
| Investments | 118,256 | 0 | 0 | 0 | 118,256 | 0 |
| Receivables, net | 587,964 | 0 | 0 | 0 | 587,964 | 0 |
| Restricted cash and cash equivalents | 31,208 | 336,577 | 0 | 0 | 367,785 | 0 |
| Restricted investments | 83,728 | 0 | 0 | 0 | 83,728 | 0 |
| Advances to other funds | 0 | 0 | 1 | 4,000 | 4,001 | 29 |
| Capital assets (net of accumulated depreciation) | 0 | 0 | 7 | 470 | 477 | 95,345 |
| Other noncurrent assets | 15,320 | 0 | 0 | 0 | 15,320 | 0 |
| Total noncurrent assets | 836,476 | 336,577 | 8 | 4,470 | 1,177,531 | 95,374 |
| Total assets | \$ 869,657 | \$ 339,696 | \$ 208,310 | \$ 30,437 | \$ 1,448,100 | \$ 129,896 |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and other current liabilities | \$ 5,985 | \$ 7,944 | \$ 2,490 | \$ 6,073 | \$ 22,492 | \$ 6,724 |
| Due to other funds | 0 | 0 | 0 | 5,500 | 5,500 | 1,281 |
| Short-term compensated absences | 0 | 0 | 39 | 9 | 48 | 890 |
| Short-term portion of long-term liabilities | 20,012 | 0 | 26,530 | 5,084 | 51,626 | 31,241 |
| Total current liabilities | 25,997 | 7,944 | 29,059 | 16,666 | 79,666 | 40,136 |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 0 | 0 | 5 | 1 | 6 | 112 |
| Claims and judgements | 0 | 0 | 128,090 | 26,205 | 154,295 | 19,814 |
| Bonds, notes and loans payable | 565,884 | 0 | 0 | 0 | 565,884 | 67,370 |
| Arbitrage Rebate Payable | 2,051 | 0 | 0 | 0 | 2,051 | 0 |
| Advances from other funds | 0 | 0 | 0 | 0 | 0 | 5,630 |
| Other noncurrent liabilities | (930) | 0 | 0 | 0 | (930) | 0 |
| Total noncurrent liabilities | 567,005 | 0 | 128,095 | 26,206 | 721,306 | 92,926 |
| Total liabilities | 593,002 | 7,944 | 157,154 | 42,872 | 800,972 | 133,062 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 0 | 0 | 9 | 470 | 479 | 37,925 |
| Restricted for: | | | | | | |
| Other purposes | 276,655 | 392,043 | 54,738 | (134,104) | 589,332 | 0 |
| Unrestricted | 0 | (60,291) | (3,591) | 121,199 | 57,317 | (41,091) |
| Total net assets | 276,655 | 331,752 | 51,156 | (12,435) | 647,128 | (3,166) |
| Total liabilities and net assets | \$ 869,657 | \$ 339,696 | \$ 208,310 | \$ 30,437 | \$ 1,448,100 | \$ 129,896 |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas

**Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Proprietary Funds**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Business-Type Activities | | | | | Governmental Activities - Internal Service Funds |
|-----------------------------------------------|--------------------------|---------------------------|------------------------------|--------------------|-------------------|--------------------------------------------------------------|
| | Water Funds | Unemployment Insurance | Health Care Stabilization | Nonmajor Funds | Totals | |
| Operating revenues: | | | | | | |
| Charges for services | \$ 17,958 | \$ 282,952 | \$ 22,237 | \$ 229,507 | \$ 552,654 | \$ 85,048 |
| Other revenue | 2,953 | 21,043 | 3,569 | 458 | 28,023 | (3,183) |
| Total operating revenues | <u>20,911</u> | <u>303,995</u> | <u>25,806</u> | <u>229,965</u> | <u>580,677</u> | <u>81,865</u> |
| Operating expenses: | | | | | | |
| Salaries and wages | 0 | 0 | 713 | 4,073 | 4,786 | 23,705 |
| Supplies and services | 0 | 0 | 5,543 | 31,120 | 36,663 | 36,811 |
| Lottery prize awards | 0 | 0 | 0 | 120,776 | 120,776 | 0 |
| Depreciation | 0 | 0 | 3 | 226 | 229 | 9,796 |
| Insurance claims and expenses | 0 | 468,373 | 0 | 684 | 469,057 | 15,300 |
| Program administration - Water Funds | 1,879 | 0 | 0 | 0 | 1,879 | 0 |
| Other expenses | (313) | 40 | 24,265 | 796 | 24,788 | 50 |
| Total operating expenses | <u>1,566</u> | <u>468,413</u> | <u>30,524</u> | <u>157,675</u> | <u>658,178</u> | <u>85,662</u> |
| Operating income (loss) | <u>19,345</u> | <u>(164,418)</u> | <u>(4,718)</u> | <u>72,290</u> | <u>(77,501)</u> | <u>(3,797)</u> |
| Nonoperating revenues (expenses): | | | | | | |
| Operating grants | 0 | 87,944 | 0 | 0 | 87,944 | 0 |
| Capital grants | 32,677 | 0 | 0 | 0 | 32,677 | 0 |
| Investment earnings | 9,643 | 18,647 | 0 | 0 | 28,290 | 0 |
| Interest expense | (27,409) | 0 | 0 | 0 | (27,409) | (3,418) |
| Other expenses | 0 | 0 | (3,350) | (1,155) | (4,505) | (246) |
| Total nonoperating revenues (expenses) | <u>14,911</u> | <u>106,591</u> | <u>(3,350)</u> | <u>(1,155)</u> | <u>116,997</u> | <u>(3,664)</u> |
| Net income (loss) | <u>34,256</u> | <u>(57,827)</u> | <u>(8,068)</u> | <u>71,135</u> | <u>39,496</u> | <u>(7,461)</u> |
| Transfers in | 0 | (1,854) | 4,477 | (70,288) | (67,665) | (4,678) |
| Transfers out | 0 | (610) | 0 | (18) | (628) | (2,248) |
| Net change in net assets | <u>34,256</u> | <u>(60,291)</u> | <u>(3,591)</u> | <u>829</u> | <u>(28,797)</u> | <u>(14,387)</u> |
| Total net assets - beginning | 240,130 | 392,043 | 54,747 | (124,951) | 561,969 | 11,221 |
| Revisions to beginning net assets | 2,269 | 0 | 0 | 111,687 | 113,956 | 0 |
| Net assets - beginning (restated) | <u>242,399</u> | <u>392,043</u> | <u>54,747</u> | <u>(13,264)</u> | <u>675,925</u> | <u>11,221</u> |
| Total net assets - ending | <u>\$ 276,655</u> | <u>\$ 331,752</u> | <u>\$ 51,156</u> | <u>\$ (12,435)</u> | <u>\$ 647,128</u> | <u>\$ (3,166)</u> |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2004
(expressed in thousands)

| | Water Funds | Unemployment Insurance | Health Care Stabilization | Nonmajor funds | Totals | Governmental Activities - Internal Service Funds |
|-----------------------------------------------------------------------------------------------|------------------|---------------------------|------------------------------|-------------------|--------------------|-----------------------------------------------------------|
| Cash flows from operating activities: | | | | | | |
| Cash receipts from customers | \$ 17,157 | \$ 303,440 | \$ 25,599 | \$ 230,032 | \$ 576,228 | \$ 81,865 |
| Cash payments to suppliers for goods and services | (1,647) | 1,328 | (29,842) | (32,354) | (62,515) | (31,551) |
| Cash payments to employees for services | 0 | 0 | (703) | (4,072) | (4,775) | (23,646) |
| Cash payments for lottery prizes | 0 | 0 | 0 | (121,372) | (121,372) | 0 |
| Claims paid | 0 | (468,373) | 1,020 | (1,480) | (468,833) | (8,577) |
| Other operating revenues | 3,109 | 0 | 0 | 0 | 3,109 | 0 |
| Other operating expenses | (1,366) | 0 | 0 | 0 | (1,366) | 0 |
| Net cash provided (used) by operating activities | 17,253 | (163,605) | (3,926) | 70,754 | (79,524) | 18,091 |
| Cash flows from noncapital financing activities: | | | | | | |
| Operating grants receipts | 0 | 87,944 | 0 | 0 | 87,944 | 0 |
| Other non-operating expenses | 0 | 0 | (3,350) | (1,155) | (4,505) | (246) |
| Net transfers to other funds | 0 | (2,446) | 4,477 | (69,656) | (67,625) | (12,583) |
| Other cash inflows from noncapital financing activities | 85,190 | 0 | 0 | 0 | 85,190 | 0 |
| Other cash outflows from noncapital financing activities | (58,690) | 0 | 0 | 0 | (58,690) | 0 |
| Net cash provided (used) by noncapital financing activities | 26,500 | 85,498 | 1,127 | (70,811) | 42,314 | (12,829) |
| Cash flows from capital and related financing activities: | | | | | | |
| Repayment of long-term debt | 0 | 0 | 0 | 0 | 0 | (1,517) |
| Interest payments | 0 | 0 | 0 | 0 | 0 | (3,472) |
| Proceeds from sale of fixed assets | 0 | 0 | 0 | (403) | (403) | 0 |
| (Gain) loss on disposal of fixed assets | 0 | 0 | 0 | 0 | 0 | 5,500 |
| Payments for purchase of fixed assets | 0 | 0 | 0 | 0 | 0 | (3,830) |
| Net cash provided (used) by capital and related financing activities | 0 | 0 | 0 | (403) | (403) | (3,319) |
| Cash flows from investing activities: | | | | | | |
| Proceeds from sale and maturities of investment securities | 126,206 | 0 | 6,863 | 0 | 133,069 | 0 |
| Purchase of investments | (169,467) | 0 | (7,148) | 0 | (176,615) | 0 |
| Interest and dividends | 10,553 | 18,647 | 200 | 0 | 29,400 | 0 |
| Unrealized (gain) loss on investments | 0 | 0 | 2,673 | 0 | 2,673 | 0 |
| Net cash provided (used) by investing activities | (32,708) | 18,647 | 2,588 | 0 | (11,473) | 0 |
| Net increase (decrease) in cash and cash equivalents | 11,045 | (59,460) | (211) | (460) | (49,086) | 1,943 |
| Cash and cash equivalents, beginning of year | 44,335 | 396,037 | 2,906 | 17,213 | 460,491 | 32,072 |
| Cash and cash equivalents, end of year | \$ 55,380 | \$ 336,577 | \$ 2,695 | \$ 16,753 | \$ 411,405 | \$ 34,015 |
| Reconciliation of operating income (loss) to net cash provided by operations: | | | | | | |
| Operating income (loss) | \$ 19,345 | \$ (164,418) | \$ (4,718) | \$ 72,290 | \$ (77,501) | \$ 577 |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | | | | | |
| Depreciation | 0 | 0 | 3 | 226 | 229 | 9,796 |
| Changes in assets and liabilities: | | | | | | |
| Receivables | (644) | (555) | (207) | 67 | (1,339) | 0 |
| Inventories | 0 | 0 | 0 | (550) | (550) | (80) |
| Accounts payable | (1,448) | 1,368 | (34) | 112 | (2) | 1,016 |
| Payroll liabilities | 0 | 0 | 10 | 1 | 11 | 59 |
| Claims and judgements | 0 | 0 | 1,020 | (796) | 224 | 6,723 |
| Lottery prize liability | 0 | 0 | 0 | (596) | (596) | 0 |
| Total adjustments | (2,092) | 813 | 792 | (1,536) | (2,023) | 17,514 |
| Net cash provided by operating activities | \$ 17,253 | \$ (163,605) | \$ (3,926) | \$ 70,754 | \$ (79,524) | \$ 18,091 |

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2004

State of Kansas
Statement of Fiduciary Net Assets
June 30, 2004
(expressed in thousands)

| | <u>Pension Trust</u> | <u>Investment Trust</u> | <u>College Savings Program</u> | <u>Agency</u> |
|-----------------------------------------|----------------------|-----------------------------|----------------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,611 | \$ 469,178 | \$ 606 | \$ 291,852 |
| Investments | 12,837,464 | 0 | 760,247 | 1,071,042 |
| Receivables, net | 1,452,425 | 3,253 | 970 | 19,361 |
| Inventories | 34 | 0 | 0 | 0 |
| Capital assets | <u>2,469</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets | <u>\$ 14,296,003</u> | <u>\$ 472,431</u> | <u>\$ 761,823</u> | <u>\$ 1,382,255</u> |
| LIABILITIES | | | | |
| Accounts payables and other liabilities | \$ 3,868,860 | \$ 0 | \$ 348 | \$ 1,382,255 |
| Refunds payable and other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total liabilities | <u>3,868,860</u> | <u>0</u> | <u>348</u> | <u>\$ 1,382,255</u> |
| NET ASSETS | | | | |
| Net assets held in trust | <u>\$ 10,427,143</u> | <u>\$ 472,431</u> | <u>\$ 761,475</u> | |

The notes to the financial statements are an integral part of this statement.

State of Kansas

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Pension Trust | Investment Trust | College Savings Program Trust |
|---------------------------------|-----------------------------|--------------------------|-------------------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer contributions | \$ 714,353 | \$ 0 | \$ 0 |
| Employee contributions | 230,350 | 0 | 0 |
| College savings contributions | <u>0</u> | <u>0</u> | <u>322,878</u> |
| Total contributions | 944,703 | 0 | 322,878 |
| Deposits: | | | |
| Net investment income | 1,336,226 | 3,800 | 66,685 |
| MIP deposits | 0 | 2,214,032 | |
| Other deposits | <u>182</u> | <u>0</u> | <u>0</u> |
| Total additions | <u>2,281,111</u> | <u>2,217,832</u> | <u>389,563</u> |
| DEDUCTIONS | | | |
| Benefits and refunds: | | | |
| Monthly benefits and refunds | 676,919 | 0 | 0 |
| Refunds of contributions | 41,179 | 0 | 0 |
| Death benefits | 8,685 | 0 | 0 |
| Distributions | <u>0</u> | <u>2,086,520</u> | <u>50,758</u> |
| Total benefits and refunds | 726,783 | 2,086,520 | 50,758 |
| Administrative expenses | <u>57,627</u> | <u>960</u> | <u>765</u> |
| Total deductions | <u>784,410</u> | <u>2,087,480</u> | <u>51,523</u> |
| Net increase (decrease) | 1,496,701 | 130,352 | 338,040 |
| Net assets - beginning of year | <u>8,930,442</u> | <u>342,079</u> | <u>423,435</u> |
| Net assets - end of year | <u><u>\$ 10,427,143</u></u> | <u><u>\$ 472,431</u></u> | <u><u>\$ 761,475</u></u> |

The notes to the financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The accompanying financial statements of the State of Kansas (the "State") have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the standard setting body for governmental accounting and financial reporting principles.

For the year ending June 30, 2004, the State has implemented GASB, Statement 39 – *Determining Whether Certain Organizations Are Component Units*, and Statement 40 – *Deposit and Investment Risk Disclosures*.

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2004 and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Kansas State Legislature and/or Constitutional Officers of the State of Kansas.

The State has considered all potential component units for which it is financially accountable, organizations that raise and hold economic resources for the State, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

As required by generally accepted accounting principles, these financial statements present the State of Kansas (the primary government) and its component units.

The accompanying financial statements present the activities of State government (the primary government), which is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court, and the District Trial Courts.

Discrete Component Units

Discrete component units are entities that are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column to emphasize that they are legally separate from the primary government and are governed by separate boards.

Following is a table identifying each discretely presented component unit followed by a brief description of each component unit. Complete financial statements for each of the individual component units may be obtained from their respective administrative offices at the above noted addresses.

State of Kansas
Notes to the Financial Statements
June 30, 2004

I. Summary of Significant Accounting Policies

| <u>Component Unit</u> | <u>Description: Criteria for Inclusion</u> | <u>Reporting Method</u> | <u>For Separate Financial Statements</u> |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kansas Development Finance Authority (KDFA) | The State appoints a voting majority of the board of KDFA and has the power to impose its will on KDFA. | Reported as a discrete component unit, because the board is not the same and services are provided to other entities. | Kansas Development Finance Authority 555 South Kansas Avenue, Suite 202 Topeka, Kansas 66603 |
| Kansas Technology Enterprise Corporation (KTEC) | The State appoints a voting majority of the board of KTEC and has the power to impose its will on KTEC. There is a potential for KTEC to impose specific financial burdens or provide specific financial benefits to the State. KTEC is fiscally dependent on the State. | Reported as a discrete component unit, because the board is not the same and services are provided to other entities. | Kansas Technology Enterprise Corporation 214 SW 6 th Avenue, Suite 100 Topeka, Kansas 66603 |
| Kansas Housing Resources Corporation (KHRC) | KHRC is a subsidiary corporation of KDFA and a legal entity separate and distinct from KDFA and the State. | Reported as a discrete component unit because the board is not the same and services are provided to other entities. | Kansas Housing Resources 611 S. Kansas Avenue, Suite 300 Topeka, Kansas 66603 |
| State University System | The State appoints a voting majority of the Kansas Board of Regents which controls the State universities, and has the power to impose its will on the State universities through the budgeting process. | Reported as a discrete component unit because the board is not the same and services are provided to other entities. | The Kansas Board of Regents does not issue separate financial statements. For separate financial statements of a university, contact the respective university or: Kansas Board of Regents 1000 SW Jackson St., Suite 520 Topeka, KS 66612-1368 |

Kansas Development Finance Authority (KDFA) was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplements. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas. KDFA was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

Kansas Technology Enterprise Corporation (KTEC) is a body politic, corporate, and an instrumentality of the State of Kansas, which was created by the Legislature of the State in March 1986 (K.S.A. 74-8101). The responsibilities and duties of the existing State Office of Advanced Technology were transferred to KTEC effective January 12, 1987. KTEC's principal statutory functions and responsibilities are as follows:

- To foster innovation in existing and developing businesses, especially the creation, growth, and expansion of Kansas enterprises in a diversified range of primary sectors which develop value-added products, processes, and services.
- To invest in basic research, applied research and development, and technology transfer at Kansas educational institutions which meet competitive standards of excellence and which create innovative collaboration between Kansas educational institutions and Kansas enterprises.
- To award applied research matching grants to Kansas educational institutions and Kansas private enterprises in order

I. Summary of Significant Accounting Policies

- to move innovation and applied research toward commercial application.
- To engage in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology-based, and emerging Kansas businesses.
- To provide technical referral services to such small, new, emerging, or mature businesses and encourage Kansas educational institutions to establish technical information databases and industrial liaison offices, which are easily accessible by both private and public sector Kansas organizations.

Kansas Housing Resources Corporation (KHRC) was formed pursuant to K.S.A. 74-8904(v) per the Governor's Executive Reorganization Order #30. KHRC is a subsidiary corporation of the Kansas Development Finance Authority. KHRC's mission is to enhance Kansas communities with housing opportunities. This goal is achieved through using a variety of strategies and approaches, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing, providing affordable housing through rent assistance to low-income families and senior citizens, and creating housing opportunities for previously underserved persons and communities.

State University System. The Kansas State Board of Regents, created in 1859 by adoption of the State Constitution, is responsible for control and supervision of public institutions of higher education which benefit the state. The Kansas Board of Regents is a legally separate body composed of nine members appointed by the Governor. The Board supervises all State universities while budgetary decisions are exercised at the State level. The State university system consists of the Board's administrative arm and six constituent universities. Funding for the State university system is accomplished primarily by State appropriations, tuition and fees, sales and services, federal and state grants, and private donations and grants.

In addition to the Kansas Board of Regents' administrative arm, the following universities and their respective component units make up the State university system for financial reporting purposes: University of Kansas, including the University of Kansas Medical Center; Kansas State University; Wichita State University; Emporia State University; Pittsburg State University; and Fort Hays State University. Each university issues its own complete financial statements which can be obtained from the respective university. The Kansas Board of Regents' administrative arm does not issue separate financial statements.

B. Government-wide and Fund Financial Statements

Government-wide Statements – The statement of net assets and the statement of activities report information of the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the duplication of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the State and between its discretely presented component units. Governmental activities are generally supported by taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are supported in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The State classifies State spending by function of government and by category of expenditure. Function of government is a grouping of agencies, which make expenditures for similar programs and purposes. There are seven functions of government: (1) general government; (2) human resources; (3) education; (4) public safety; (5) agriculture and natural resources; (6) transportation; and (7) health and environment. *General Government* includes State agencies with both administrative and regulatory functions. These agencies include the State's elected officials and the Department of

I. Summary of Significant Accounting Policies

Administration. *Human Resources* agencies provide services to individuals. *Education* agencies provide various educational services to Kansans. *Public Safety* agencies ensure the safety and security of Kansas' citizens. *Agriculture and Natural Resources* agencies protect the natural and physical resources of the State and regulate the use of those resources. *Transportation* includes only the Department of Transportation. Responsibilities of this agency include maintenance and construction of highways in Kansas. The *Health and Environment* agency optimizes the promotion and protection of the health of Kansans through efficient and effective public health programs and services and through preservation, protection, and remediation.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements – The fund financial statements provide information about State funds, including fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from income and sales taxes is recognized in the fiscal year the underlying exchange occurred, while revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures generally are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the policy of the State to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. In reporting the financial activities of the proprietary funds the State applies all applicable GASB pronouncements and FASB pronouncements issued prior to November 30, 1989.

I. Summary of Significant Accounting Policies

D. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the internal service, fiduciary and component units follows:

Governmental Funds:

These funds include the State's main operating fund, special revenue funds, capital projects funds, and debt service funds.

General Fund – This is the primary operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Transportation Fund – This fund is the primary operating fund of the Department of Transportation. The Department of Transportation has the statutory responsibility to coordinate planning, development and operation of the various modes and systems of transportation in the State.

Transportation-Capital Projects Fund – This fund accounts for the financial resources to be used for construction of major capital facilities for the Department of Transportation.

Social and Rehabilitation Services Fund – This fund accounts for all the activities of the Department of Social and Rehabilitation Services.

Proprietary Funds:

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate.

Water Fund – This fund accounts for the Water Pollution Control and Public Water Supply Revolving Loan funds controlled by the Department of Health and Environment.

Unemployment Insurance Fund – This fund accounts for unemployment insurance for the deposit of moneys requisitioned for the Kansas Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

Health Care Stabilization Fund – This fund accounts for moneys accumulated to pay damages for personal injury or death arising out of the rendering of or the failure to render professional services by a health care provider, self-insurer or inactive health care provider subsequent to the time that such health care provider or self-insurer qualified for coverage under the provisions of this program.

Internal Service Funds - These funds account for printing, information technology, accounting, motor pool, aircraft, building maintenance, architectural, central mail, workers' compensation, and capitol security services provided to other departments on a cost-reimbursement basis.

I. Summary of Significant Accounting Policies

Fiduciary Funds:

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units.

Pension Trust Fund -- This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Public Employees Retirement System.

Investment Trust Fund – This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Municipal Investment Pool.

Private Purpose Trust Fund - This fund accounts for the *Learning Quest* program that allows participants to invest in a college savings account to cover tuition, fees, and the cost of room and board, books, supplies and equipment required for the enrollment or attendance of a beneficiary at an eligible educational.

Agency Funds - These funds account for assets held by the State in a custodial capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Both government-wide and proprietary funds financial statements of the State follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The effect of interfund activity has generally been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses are generated from providing services or products in connection with the enterprise operations of the funds.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash balances of funds in the State Treasury are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value, based on quoted market prices.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

The investment policies of the PMIB are governed by State statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

- Direct obligations of, or obligations except mortgage backed securities, that are insured as to principal and interest by the U.S. Government, or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Interfund loans to various State agencies as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or \$80,000,000 of total investments.
- Certain Kansas agency and IMPACT Act projects and bonds

I. Summary of Significant Accounting Policies

- Linked deposit loans for agricultural production not to exceed \$55 million
- High grade commercial paper

Specific Fund Investments – State statutes permit investing cash balances not included in the PMIB in the following types of investments:

- U. S. Government obligations
- Mortgage backed securities
- Corporate securities
- U.S. Government agency securities
- Repurchase agreements
- Commercial paper not to exceed 270 days to maturity and rated within the two highest commercial paper ratings
- State of Kansas agency bonds, with maturities not to exceed four years

In addition to the above investments, short-term bond proceeds may be invested at the direction of KDFA through the PMIB.

Kansas Municipal Investment Pool - The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Office of the Kansas State Treasurer (Treasurer) acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP. The deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

Kansas Public Employees Retirement System (KPERS) Investments - The Retirement System's investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERS values its investments at fair value. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

Investment Income Allocation – State statutes require interest earned to be credited to the State General Fund unless required by law to be credited based on average daily balance to a specific fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectibles.

Inventories

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the government-wide financial statements are accounted for using the consumption method. Inventories in the governmental funds financial statements are on the purchases method. The purchases method provides that inventory be treated as an expenditure when purchased. Consumable supplies are reported only if over \$200,000 per agency.

I. Summary of Significant Accounting Policies

The governmental funds statements have a current financial resources focus. As a result, modified accrual adjustments to capitalize inventory at year-end affect beginning fund balance rather than expenditures. The focus on current financial resources is better maintained by not adjusting the expenditures for the amount of inventory reclassified to the balance sheet. The government-wide statements, however, require the full accrual adjustment to expenditures to properly reflect the amount of inventory consumed during the fiscal year.

Deferred Bond Issuance Costs

Deferred bond issuance costs consist of the costs incurred related to bond issuance. These costs are capitalized and amortized over the term of the bonds using the straight-line method.

Restricted Assets

Certain resources are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by bond requirements. The Employment Security Fund was established by law as a special fund separate and apart from all public money or funds of the State. The cash is maintained in a separate bank account with the U.S. Treasury.

Capital Assets

Capital assets are reported at actual or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Construction in process is capitalized. Capitalization policies (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| | Capitalization Policy | Depreciation Method | Estimated Useful Life |
|--------------------------------------|--------------------------|------------------------|--------------------------|
| Land | \$100,000 | Not applicable | Not applicable |
| Buildings and leasehold improvements | 100,000 | Straight-line | 40 years |
| Furnishings and equipment | 5,000 | Straight-line | 8 years |
| Automobiles | 5,000 | Straight-line | 5 years |

The depreciation method is straight line with no salvage value. Accumulated depreciation is calculated in total by class of assets by year using the one half year convention in year of purchase. No depreciation is recorded for land and construction in progress.

Works of art and historical items are not capitalized. It is the intent of the State of Kansas that all art works and historical objects be held for the purpose of exhibition to the public to further education and research. It is also the intent to preserve and protect such items to insure their availability to future generations. If any items are sold from any collection, the proceeds from such disposition are intended to be set aside for future acquisitions for the collections.

Infrastructure

The roadway system and bridge system are reported using the modified approach. Accordingly, depreciation is not reported for these systems, and all expenditures, except for additions and improvements are expensed.

I. Summary of Significant Accounting Policies

Compensated Absences

Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

Bonds and Notes Payable

Bonds and notes payable consist of notes and bonds issued to finance capital improvements for various projects. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and deferred bond issuance costs are capitalized and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred bond issuance costs are reported as an other asset and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as deferred bond issuance costs, during the current period. The face amount of bond debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Deferred bond issuance costs are reported as debt service expenditures.

Other Long-term Obligations

Other long-term obligations consist of claims and judgments, capital leases payable, and other miscellaneous long-term obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, other long-term obligations are reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

G. Pending Governmental Accounting Standards Board Statements

At June 30, 2004, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the State. The State plans to implement the provisions of these statements on or before their effective dates. Management has not yet determined the impact these new statements will have on the State's financial statements:

I. Summary of Significant Accounting Policies

GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries”, was issued in November 2003 and establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2005.

GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, was issued in April 2004. The objective of this statement is to establish uniform standards of financial reporting by state and local government entities for other postemployment benefit plans (OPEB plans). The term “other postemployment benefits” refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and (b) other types of postemployment benefits (i.e. life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 31, 2005.

GASB Statement No. 44, “Economic Condition Reporting: The Statistical Section”, was issued in May 2004. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information. The provisions of this statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, was issued in June 2004. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities and assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for the State of Kansas for periods beginning after December 15, 2006.

II. Stewardship, Compliance, Accountability

A. Excess of Expenditures Over Appropriations

For the year ended June 30, 2004, expenditures did not exceed appropriations or limitations.

B. Deficit Fund Equity

The Social and Rehabilitation Services Fund had a deficit due to accrued liabilities exceeding available resources at year end. The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2004 due to the demand bonds.

State of Kansas
Notes to the Financial Statements
June 30, 2004

III. Detailed Notes On All Funds

A. Deposits and Investments

A summary of deposits and investments at June 30, 2004 is as follows (expressed in thousands):

| | Governmental and Business-type Activities | Pension Trust | Investment Trust | College Savings Program | Agency | Total |
|---------------------------------------------------------------|-------------------------------------------------|----------------------|---------------------|-------------------------------|---------------------|----------------------|
| Pooled Cash and Investments | | | | | | |
| Cash | \$ 19,930 | \$ 49 | \$ 6,380 | \$ 8 | \$ 3,969 | \$ 30,336 |
| Investments at fair market value | 1,445,616 | 3,562 | 462,798 | 598 | 287,883 | 2,200,457 |
| Cash deposits with financial institutions | 51,589 | 0 | 0 | 0 | 0 | 51,589 |
| Cash with US Treasury | 330,035 | 0 | 0 | 0 | 0 | 330,035 |
| Unclaimed property invested by KPERS | 114,500 | 0 | 0 | 0 | 0 | 114,500 |
| Imprest funds and agency bank accounts | 1,013 | 0 | 0 | 0 | 0 | 1,013 |
| Canteen, members' benefit, members' money in agency's custody | 0 | 0 | 0 | 0 | 8,207 | 8,207 |
| Kansas Public Employees Retirement (KPERS) Investments | 0 | 12,837,464 | 0 | 0 | 0 | 12,837,464 |
| Investments owned by other funds | 561,093 | 0 | 0 | 760,247 | 1,062,835 | 2,384,175 |
| Total | <u>\$ 2,523,776</u> | <u>\$ 12,841,075</u> | <u>\$ 469,178</u> | <u>\$ 760,853</u> | <u>\$ 1,362,894</u> | <u>\$ 17,957,776</u> |

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2004, is as follows:

Disclosures Regarding Deposits and Investments:

| | |
|--------------------------------|----------------------|
| Total investments and deposits | 15,639,850 |
| Carrying amount of deposits | <u>2,317,925</u> |
| Total | <u>\$ 17,957,775</u> |

Statement of Net Assets

| | |
|--------------------------------------|-----------|
| Cash and cash equivalents | 1,029,665 |
| Investments at fair market value | 837,381 |
| Restricted Cash and Cash Equivalents | 573,001 |
| Restricted Investments | 83,728 |

Statement of Fiduciary Net Assets

| | |
|----------------------------------|----------------------|
| Cash and cash equivalents | 765,247 |
| Investments at fair market value | <u>14,668,753</u> |
| Total | <u>\$ 17,957,775</u> |

State Treasury and Municipal Investment Pool Balance

Cash balances in the State Treasury are held in numerous bank accounts. Available cash balances beyond immediate needs are pooled for short-term investment purposes. The cash balances and investments are combined and reported under the caption of "Cash and cash equivalents." The State Treasury and Municipal Investment Pool Balance as of fiscal year-end is comprised as follows (expressed in thousands):

State of Kansas
Notes to the Financial Statements
June 30, 2004

III. Detailed Notes On All Funds

State Treasury and Municipal Investment Pool Balance

Pooled Cash and Investments

| | |
|------------------------------------------------------------|----------------------------|
| Cash | |
| Kansas banks demand accounts | \$30,336 |
| Investments at fair market value | |
| Kansas banks certificates of deposit | 110,302 |
| U.S. government agencies securities | 667,352 |
| Commercial paper | 643,214 |
| Repurchase agreements | 711,900 |
| Loans Receivable | 7,843 |
| Public water supply loan fund | 5,000 |
| Linked deposits | 54,845 |
| Cash deposits with financial institutions | |
| Moneys in custodial demand accounts | 2,667 |
| Cash items | 74 |
| Cash in transit | 48,847 |
| Unclaimed property invested by KPERS | 114,500 |
| Unemployment trust fund cash with U.S. Treasury | 330,035 |
| Total State Treasury and Municipal Investment Pool Balance | 2,726,916 |
| Less: unredeemed KDOT warrants and other reconciling items | (6,394) |
| Total Deposits | <u><u>\$ 2,720,522</u></u> |

III. Detailed Notes On All Funds

At June 30, 2004, the carrying amount (book balance) of the deposits included in the State Treasury balance was \$2,317.9 million. At June 30, 2004, the State Treasurer had \$198.1 million in the associated bank balances. For cash deposits with financial institutions, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. Effective March 15, 2004, the Kansas State Treasurer's office in its role as custodian for collateral pledged against the State of Kansas deposits, agreed to follow the changes to the pledged collateral policy that the Pooled Money Investment Board has approved. The criteria for Kansas Bank CDs is as follows:

- U.S. Treasury securities (T-Bills, T-Notes, and Treasury Strips) and Federal Agency securities (Discount Notes and Debentures) with a final maturity of five years and under will require pledging of 100 percent collateralization (for any amount over the \$100,000 FDIC coverage).
- Any other type of security (including CMO's and MBS), surety bonds, or letters of credit (regardless of the final maturity) will require 105 percent collateralization.
- Any security with a final maturity longer than five years will require 105 percent collateralization.

Securities pledged as collateral for demand deposit accounts will not be subject to the new pledged collateral policy. The State's deposits with financial institutions were fully collateralized at fiscal year-end by FDIC insurance or pledged collateral (either government securities, FHLB letters of credit or surety bonds). The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Kansas City or in approved custodial banks and are held in the name of the State.

The cash balances in the State Treasury are included in the financial statements in the category "Cash and cash equivalents." Also included in this category are amounts outside the State Treasury such as cash in agencies' imprest funds and authorized bank accounts, canteen, benefit and members' moneys in agencies' custody.

Component Unit - KDFA

KDFA considers all short-term investments with an original maturity of three months or less to be cash equivalents. KDFA monitors the amount of securities pledged by financial institutions as collateral to secure the deposits of KDFA in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Statutes authorize KDFA, "to invest moneys of the Authority not required for immediate use, including proceeds from the sale of any bonds, in such manner as the board shall determine, subject to any agreement with bond holders stated in the authorizing resolution providing for the issuance of bonds." KDFA has adopted a formal investment policy. The primary objectives, in priority order, of investment activities shall be safety, yield and liquidity. The standard of care to be used by investment officials shall be the "prudent investor" standard, and shall be applied in the context of managing an overall portfolio.

At June 30, 2004, KDFA has \$2,673,039 invested in the State of Kansas Municipal Investment Pool.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty KDFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of KDFA's deposits at June 30, 2004 and 2003 totaled \$2,854,903 and \$4,373,845. Of the bank balance, \$981,989 and \$1,827,546 of securities held as collateral for the deposits were held by the pledging financial institution (the counterparty). The remainder is fully insured with an excess insurance bond provided by the counterparty, as well as by the standard coverage of the Federal Deposit Insurance Corporation (FDIC).

Credit Risk. KDFA's policy limits investments to those allowed by State Statute, and further to those with one of the top two ratings from Standard & Poor's or Moody's Investor Services, depending on the type of investment. As of June 30, 2004, KDFA was only invested in certificates of deposit and the Kansas Municipal Investment Pool. As of June 30, 2004, the pool was rated AA+ / S1+ by Standard & Poor's.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from interest rates, KDFA's investment policy limits investment maturities as follows: The portion of the portfolio equal to 150% of the current year annual operating expense budget shall be continuously invested in obligations which have maturities of eighteen months or less. Monies in excess of the 150% may be invested in obligations greater than eighteen months, but no more than

III. Detailed Notes On All Funds

forth-eight months. At June 30, 2004, KDFA had \$672,065 invested in the overnight pool of the Kansas Municipal Investment Pool. The remainder of KDFA's investments at June 30, 2004 were in the fixed rate pools and had weighted average maturities of 219 days.

Component Unit - KHRC

KHRC cash equivalents are defined as short-term highly liquid investments that are readily convertible to cash with an original maturity of three months or less. Restricted cash and cash equivalents include Financing Adjustment Factor (FAF) funds invested in a custodial money market trust account with a financial institution, FAF funds included in the State Housing Trust Fund, and cash held under Federal grant programs, all at fair value. Various government programs dictate how these restricted funds may be used.

As of June 30, 2004, KHRC has \$4,159,473 invested in the State Housing Trust Fund and \$214,993 held for Federal and fee funded programs, both of which are managed by the Kansas State Treasurer's office, and \$154,598 held in a custodial trust account with a financial institution.

KHRC has not adopted a formal investment policy as of June 30, 2004. However, a formal investment policy will be developed and implemented in the fiscal year ended June 30, 2005.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, KHRC will not be able to recover the value of its deposits or investments that are in the possession of an outside party. KHRC does not have a deposit policy for custodial credit risk. However, none of the KHRC's deposits are subject to custodial credit risk as deposits are either held in a custodial trust account or with the Kansas State Treasurer's office.

B. Investments

Investments included in the State Treasury Balance and Municipal Investment Pool Balance, Specific Agency Fund Investments, and investments of the Kansas Public Employees Retirement System are classified into the following three risk categories:

1. Insured or registered, or securities held by the State or its agent in the name of the State.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the name of the State.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the name of the State.

Investments included in the State Treasury and Municipal Investment Pool Balance are classified as risk category 1.

State of Kansas
Notes to the Financial Statements
June 30, 2004

III. Detailed Notes On All Funds

The State's other investment balances at June 30, 2004, were as follows (expressed in thousands):

Primary Government

| | Category | | | Fair Value |
|------------------------------------------------------------------|---------------------|-------------|-------------|---------------------|
| | 1 | 2 | 3 | |
| <i>Investments subject to categorization</i> | | | | |
| US Government agency securities | \$ 501,297 | | | \$ 501,297 |
| Mortgage backed securities | 1,014 | | | 1,014 |
| Repurchase agreements | 165,110 | | | 165,110 |
| U.S. Government obligations | 875,374 | | | 875,374 |
| Municipal securities | 1,625 | | | 1,625 |
| Kansas banks | 2,475 | | | 2,475 |
| Total investments subject to categorization | <u>\$ 1,546,895</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1,546,895</u> |
| <i>Investments not subject to categorization</i> | | | | |
| State of Kansas Municipal Investment Pool | | | | 149 |
| Money Market Investments | | | | 89,757 |
| Guaranteed investment contracts | | | | 159,084 |
| College Savings Program | | | | 760,247 |
| Water Pollution and Supply | | | | (152,510) |
| Universities investments included in pooled cash and investments | | | | (19,448) |
| Total investments | | | | <u>\$ 2,384,174</u> |

Component Unit - KTEC

The following table summarizes the KTEC's cash and investments at June 30, 2004 (expressed in thousands):

| | Category | | | Fair Value |
|-------------------------------------------------------------------------------------------------------------------------|-----------------|---------------|-------------|------------------|
| | 1 | 2 | 3 | |
| <i>Cash and investments subject to categorization</i> | | | | |
| Deposits covered by federal depository insurance or collateral held by KTEC or its Agent in KTEC's name | \$ 2,419 | \$ 0 | \$ 0 | \$ 2,419 |
| Deposits covered by collateral held by pledging financial institution's trust department or by its Agent in KTEC's name | 0 | 757 | 0 | 757 |
| Total subject to categorization | <u>\$ 2,419</u> | <u>\$ 757</u> | <u>\$ 0</u> | <u>\$ 3,176</u> |
| <i>Cash and investments not subject to categorization</i> | | | | 6,948 |
| Total cash and investments | | | | <u>\$ 10,124</u> |

State of Kansas
Notes to the Financial Statements
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III. Detailed Notes On All Funds

Component Unit - KDFA

The following table summarizes KDFA's cash and investments at June 30, 2004 (expressed in thousands):

| | Category | | | Fair Value |
|-----------------------------------------------------------|----------|------|------|------------------------|
| | 1 | 2 | 3 | |
| <i>Cash and investments subject to categorization</i> | | | | |
| United States Government Securities | \$ 2,845 | \$ 0 | \$ 0 | \$ 2,845 |
| <i>Cash and investments not subject to categorization</i> | | | | |
| State of Kansas Municipal Investment Pool | | | | <u>2,673</u> |
| Total cash and investments | | | | <u><u>\$ 5,518</u></u> |

Component Unit - KHRC

| | Category | | | Fair Value |
|---------------------------------------------|-----------------------|-------------------|-------------------|-----------------------|
| | 1 | 2 | 3 | |
| <i>Investments with the State Treasurer</i> | | | | |
| State Housing Trust Fund | \$4,159 | \$0 | \$0 | \$4,159 |
| Federal and fee funded programs | 215 | 0 | 0 | 215 |
| <i>Other</i> | | | | |
| Trust account with financial institution | <u>155</u> | <u>0</u> | <u>0</u> | <u>155</u> |
| Total cash and investments | <u><u>\$4,529</u></u> | <u><u>\$0</u></u> | <u><u>\$0</u></u> | <u><u>\$4,529</u></u> |

Component Unit-Universities

The following table summarizes the Universities' cash and investments at June 30, 2004 (expressed in thousands):

| | Category | | | Fair Value |
|-----------------------------------------------------------|------------------------|-------------------|-------------------|---------------------------|
| | 1 | 2 | 3 | |
| <i>Cash and investments subject to categorization</i> | | | | |
| U.S. Government Obligations | \$ 255 | \$0 | \$0 | \$ 255 |
| U.S. Government Agency Securities | 303 | 0 | 0 | 303 |
| Kansas Banks | 2,475 | 0 | 0 | 2,475 |
| Invested with PMIB | 5,394 | 0 | 0 | 5,394 |
| Invested with KDFA | <u>10,603</u> | <u>0</u> | <u>0</u> | <u>10,603</u> |
| | <u><u>\$19,031</u></u> | <u><u>\$0</u></u> | <u><u>\$0</u></u> | 19,031 |
| <i>Cash and investments not subject to categorization</i> | | | | 1,977,625 |
| Total cash and investments | | | | <u><u>\$1,996,656</u></u> |

III. Detailed Notes On All Funds

Kansas Public Employees Retirement System Investments

Presently, the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 2004, the Retirement System had futures contracts with a fair value of approximately \$182,100,000. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income, which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2004, the maturities of securities in this dedicated bond portfolio are as follows: 43 percent of the fair value of the securities mature within 30 days; 19 percent mature between 31 and 180 days; and 38 percent mature after 180 days.

The custodian provides for full indemnification to the retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2003, and June 30, 2004, were \$1,827,580,110 and \$2,136,687,810 respectively. Collateral held by the Retirement System for June 30, 2003, and June 30, 2004 was \$1,881,337,715 and \$2,173,652,076 respectively. Net income produced from securities lending activities for fiscal year 2003 was \$3,803,825 and for fiscal year 2004 was \$4,254,284.

The Retirement System's international investment managers use forward contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. The Retirement System also contracts with a currency overlay manager to manage the currency exposure to the System's passive international equity portfolio. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to terms of their contractual obligations. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

All forward foreign currency contracts are carried at fair value by the Retirement System. As of June 30, 2004, the System had sold forward currency contracts with a fair value of \$1,134,208,839 and had bought forward currency contracts with a fair value of \$1,135,939,821. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

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III. Detailed Notes On All Funds

At fiscal year-end, investments held by the Kansas Public Employees Retirement System categorized by level of risk were as follows (expressed in thousands):

| | Category | | | |
|--------------------------------------------------|-----------------------|-------------|--------------------------|---------------------|
| | 1 | 2 | 3 | Fair Value |
| <i>Investments subject to categorization</i> | | | | |
| Domestic equities | \$ 3,376,746 | \$ 0 | \$ 0 | \$ 3,376,746 |
| International equities | 1,847,706 | 0 | 0 | 1,847,706 |
| Fixed Income | 2,092,222 | 0 | 1,006,218 | 3,098,440 |
| Short-term corporate note | 63,576 ⁽¹⁾ | 0 | 1,072,084 ⁽²⁾ | 1,135,660 |
| Short-term federal agency | 56,158 ⁽¹⁾ | 0 | 0 | 56,158 |
| Foreign currency | 35,186 | 0 | 0 | 35,186 |
| Total subject to categorization | <u>\$ 7,471,594</u> | <u>\$ 0</u> | <u>\$ 2,078,302</u> | <u>\$ 9,549,896</u> |
| <i>Investments not subject to categorization</i> | | | | |
| Alternative investments ⁽³⁾ | | | | \$ 537,928 |
| Real estate | | | | 701,762 |
| Money market mutual funds | | | | 4,482 |
| Securities on loan ⁽⁴⁾ | | | | 2,043,396 |
| Total not subject to categorization | | | | <u>\$ 3,287,568</u> |
| Total investment at fair value | | | | \$ 12,837,464 |

⁽¹⁾ Fixed securities maturing within ninety days of purchase date.

⁽²⁾ Securities lending cash collateral invested with maturities within ninety days of fiscal year end.

⁽³⁾ Alternative investments include direct placement and investments in limited partnership.

⁽⁴⁾ Market value of securities loaned, with cash collateral.

C. External Investment Pool

The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Kansas State Treasurer's Office acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP.

The MIP is considered a mixed pool because the State of Kansas is a participant in the pool. At June 30, 2004, the State's participation in the Pool was \$2.8 million. Deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio (PMIP). Investments subject to categorization of the PMIP are all category 1. As of March 15, 2004, the Pooled Money Investment Portfolio was rated AAA+/S-1+ by Standard & Poor's.

The MIP structure provides fixed rate investment alternatives between thirty and one hundred seventy nine days plus one hundred eighty, and three hundred sixty five-day maturities as well as a variable rate, daily liquidity, overnight investment alternative. Participants' ownership in the fund is based on their deposits and is reflected as net assets held in trust on the statement of fiduciary net assets. The MIP is valued on a monthly basis.

D. Receivables

Accounts receivable as of June 30, 2004, for the State's primary government and component units net of the applicable allowances for uncollectible accounts, are as follows (expressed in thousands):

State of Kansas
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III. Detailed Notes On All Funds

| | Primary Government | | | |
|-------------------|----------------------------|-----------------------------|---------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| Taxes receivable | \$ 364,509 | \$ 0 | \$ 364,509 | \$ 0 |
| Federal aid | 326,877 | 0 | 326,877 | 7,629 |
| Loan receivable | 17,396 | 587,964 | 605,360 | 24,852 |
| Accrued interest | 5,227 | 10,278 | 15,505 | 215 |
| Other receivables | 85,878 | 14,402 | 100,280 | 239,352 |
| Total | <u>\$ 799,887</u> | <u>\$ 612,644</u> | <u>\$ 1,412,531</u> | <u>\$ 272,048</u> |

Taxes receivable are shown net of allowances for uncollectible taxes of \$291,136 and net of estimated individual and corporate refunds of \$196,815. The Department of Revenue revised the methods used to estimate the allowance for uncollectible taxes resulting in an increase of \$98.6 million at year end.

E. Investment in Direct Financing Leases

Component Units

The Kansas Development Finance Authority issues lease revenue bonds to facilitate construction of certain capital projects for various State agencies. KDFA's interests in the projects have been assigned to various State government units through the use of financing lease transactions. Contained in the trust indenture or resolution and lease agreement for each series of bonds is a capital lease provision by which lease revenues paid by the various governmental units, as tenants, to KDFA as lessor, are pledged to pay bond debt service. Amounts are actually paid by the State agencies directly to the bond paying agents for the lease revenue bonds.

Net investment in direct financing leases as of June 30, 2004, are as follows (expressed in thousands):

| | |
|---------------------------------------------|-------------------|
| Total minimum lease payments to be received | \$ 420,289 |
| Less: unearned income | (132,624) |
| Net investment in direct financing leases | <u>\$ 287,665</u> |

The future minimum lease payments to be received by KDFA under the direct financing leases mirrors the payments to be made by KDFA under the lease revenue bonds payable.

F. Restricted Assets

Certain revenue bond proceeds and other resources set aside for bond repayment, capital projects, and other purposes are reported as restricted assets in the Statement of Net Assets because their use is limited by applicable bond covenants or statutory provisions.

Donor-Restricted Assets. Kansas' permanent endowment moneys are held primarily by State university foundations. Each university has a separate foundation, and each foundation has its own policies and procedures. Typically, the permanent endowment funds have a nonexpendable permanent corpus and an earnings reserve, which is used to receive earnings and pay expenses. The donor restrictions and the Uniform Management of Institutional Funds Act (K.S.A. 58-3601) provide guidance on how these funds can be invested, and also govern the spending of net appreciation from these investments. Net appreciation is reflected in restricted net assets. The amount of net appreciation available to be spent can be found in the individual foundation annual financial reports.

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III. Detailed Notes On All Funds

G. Capital Assets

Primary Government

(expressed in thousands)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|-----------------------------------------------------|----------------------|-------------------|-------------------|----------------------|
| <i>Governmental activities</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 127,510 | \$ 8,193 | \$ 29 | \$ 135,674 |
| Land improvements | 73,278 | 1,798 | 1,123 | 73,953 |
| Construction in progress | 49,182 | 31,629 | 2,312 | 78,499 |
| Infrastructure (including construction in progress) | 8,750,741 | 543,215 | 261,512 | 9,032,444 |
| Total capital assets, not being depreciated | <u>9,000,711</u> | <u>584,835</u> | <u>264,976</u> | <u>9,320,570</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 800,236 | 65,069 | 1,177 | 864,128 |
| Equipment and furnishings | 399,522 | 33,313 | 39,668 | 393,167 |
| Vehicles | 66,319 | 30,703 | 32,422 | 64,600 |
| Water rights | 27,273 | 0 | 0 | 27,273 |
| Totals | <u>1,293,350</u> | <u>129,085</u> | <u>73,267</u> | <u>1,349,168</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 282,137 | 20,619 | 1,030 | 301,726 |
| Equipment and furnishings | 204,231 | 25,531 | 31,879 | 197,883 |
| Vehicles | 39,151 | 24,116 | 26,910 | 36,357 |
| Water rights | 11,014 | 601 | 0 | 11,615 |
| Totals | <u>536,533</u> | <u>70,867</u> | <u>59,819</u> | <u>547,581</u> |
| Total capital assets, being depreciated, net | <u>756,817</u> | <u>58,218</u> | <u>13,448</u> | <u>801,587</u> |
| Governmental activity capital assets, net | <u>\$ 9,757,528</u> | <u>\$ 643,053</u> | <u>\$ 278,424</u> | <u>\$ 10,122,157</u> |
| <i>Business-type activities</i> | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment and furnishings | \$ 3,689 | \$ 403 | \$ 0 | \$ 4,092 |
| Less accumulated depreciation for: | | | | |
| Equipment and furnishings | 3,387 | 229 | 0 | 3,616 |
| Business-type activity capital assets, net | <u>\$ 302</u> | <u>\$ 174</u> | <u>\$ 0</u> | <u>\$ 476</u> |

Depreciation expense was charged to functions/programs as follows (expressed in thousands):

| | |
|----------------------------------------------------|------------------|
| <i>Governmental activities</i> | |
| General government | \$ 17,155 |
| Human resources | 9,834 |
| Education | 1,909 |
| Public safety | 21,384 |
| Agriculture and natural resources | 5,311 |
| Highways and other transportation | 14,054 |
| Health and environment | 1,220 |
| Total depreciation expense – Government activities | <u>\$ 70,867</u> |

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III. Detailed Notes On All Funds

Business-type activities

| | |
|-------------------------------------------------------|---------------|
| Health care stabilization | \$ 3 |
| Lottery | 226 |
| Total depreciation expense – Business-type activities | <u>\$ 229</u> |

Component Units

| | (expressed in thousands) | | | |
|-------------------------------------------------|--------------------------|-------------------|-------------------|---------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| <i>Kansas Development Finance Authority</i> | | | | |
| Capital assets, being depreciated | | | | |
| Furniture and equipment | \$ 157 | \$ 38 | \$ 29 | \$ 166 |
| Buildings and improvements | 98 | 7 | 0 | 105 |
| Less Accumulated depreciation | 141 | 52 | 29 | 164 |
| Total capital assets, being depreciated, net | <u>\$ 114</u> | <u>\$ (7)</u> | <u>\$ 0</u> | <u>\$ 107</u> |
| <i>Kansas Technology Enterprise Corporation</i> | | | | |
| Capital assets, being depreciated | | | | |
| Furniture and equipment | \$ 1,203 | \$ 14 | \$ 0 | \$ 1,217 |
| Less accumulated depreciation | 988 | 125 | 0 | 1,113 |
| Total capital assets, being depreciated, net | <u>\$ 215</u> | <u>\$ (111)</u> | <u>\$ 0</u> | <u>\$ 104</u> |
| <i>Kansas Housing Resources Corporation</i> | | | | |
| Capital assets, being depreciated | | | | |
| Furniture and equipment | \$ 374 | \$ 42 | \$ 24 | \$ 392 |
| Vehicles | 0 | 12 | 0 | 12 |
| Building improvements | 104 | 0 | 0 | 104 |
| Less accumulated depreciation | 209 | 102 | 24 | 287 |
| Total capital assets, being depreciated, net | <u>\$ 269</u> | <u>\$ (48)</u> | <u>\$ 0</u> | <u>\$ 221</u> |
| <i>University System</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 33,190 | \$ 2,171 | \$ 0 | \$ 35,362 |
| Land improvements | 76,169 | 8,945 | 66 | 85,048 |
| Construction in progress | 142,836 | 84,160 | 109,069 | 117,927 |
| Total capital assets, not being depreciated | <u>252,195</u> | <u>95,276</u> | <u>109,135</u> | <u>238,336</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 1,439,802 | 137,916 | 184 | 1,577,533 |
| Equipment and furnishings | 346,487 | 37,225 | 25,392 | 358,319 |
| Vehicles | 38,064 | 1,556 | 1,189 | 38,431 |
| Total capital assets, being depreciated | <u>1,824,352</u> | <u>176,696</u> | <u>26,765</u> | <u>1,974,283</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 639,748 | 45,296 | 145 | 684,898 |
| Equipment and furnishings | 227,620 | 23,051 | 16,954 | 233,717 |
| Vehicles | 30,852 | 3,371 | 976 | 33,247 |
| Totals | <u>898,220</u> | <u>71,718</u> | <u>18,076</u> | <u>951,863</u> |
| Total capital assets, being depreciated, net | <u>926,132</u> | <u>104,978</u> | <u>8,690</u> | <u>1,022,420</u> |
| University capital assets, net | <u>\$ 1,178,327</u> | <u>\$ 200,254</u> | <u>\$ 117,825</u> | <u>\$ 1,260,757</u> |

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III. Detailed Notes On All Funds

Construction Commitments

Primary Government

The State has active construction projects as of June 30, 2004. The projects include road projects, dam repair, building remodeling and restoration, and new juvenile correctional facilities. The Kansas Department of Transportation (KDOT) has outstanding commitments at June 30, 2004 for various highway projects in the amount of \$885 million. KDOT's commitments will be funded by revenues from various Federal, State, and local sources primarily in the form of matching Federal highway construction funds, motor fuel taxes, and vehicle registrations and permits. At year-end, the remaining State's commitments with contractors are as follows (expressed in thousands):

| Agency – Project | Spent -to- Date | Remaining Commitment | Funding Source |
|-------------------------------------------------------------------------------|-----------------------|-------------------------|---------------------------------------------------------------------------------------|
| Department of Wildlife and Parks - | \$ 55 | \$ 1,227 | Fisheries Enhancement |
| Install water line at Milford Hatchery | | | |
| Tuttle Creek State Park Mitigation Project | 70 | 1,430 | Army Corp Engineers Mitigation Settlement |
| Department of Social and Rehabilitation Services - | | | |
| State Security Hospital (Larned, KS) | 27,142 | 22,979 | Bond Series 2002N-1 to be paid from State Institutional Building Fund |
| State Hospital Rehabilitation & Repair (Larned and Osawatomie, KS) | 4,003 | 30,997 | Bond Series 2004A-1 to be paid from the Rehabilitation and Repair Projects Fund. |
| Department of Administration - | | | |
| Brigham building remodeling | 2,486 | 1 | Lease revenue bonds secured by lease rents |
| Statehouse restoration and renovation | 43,438 | 13,442 | Lease revenue bonds secured by lease rents |
| Woodward Building Remodel Project | 1,132 | 2 | State Building Renovation Fund – Woodward |
| LSOB Backfill Project | 2,548 | 23 | State Building Renovation Fund – Backfill |
| Juvenile Justice Authority - | | | |
| Kansas Juvenile Correctional Complex | 36,278 | 1,497 | Revenue bonds, grants, and fund appropriations |
| Larned Juvenile Correctional Facility | 21,638 | 87 | Revenue bonds, grants and fund appropriations |
| Department of Human Resources - | | | |
| Building renovation | 2,952 | 698 | Bonds to be paid from the Special Employment Security Fund |
| Commission on Veterans Affairs - | | | |
| Veterans Cemeteries - Ft. Dodge | 3,556 | 0 | Veterans Cemeteries Federal Construction Grant Fund |
| Veterans Cemeteries - Wakeeney | 3,071 | 258 | Veterans Cemeteries Federal Construction Grant Fund |
| Veterans Cemeteries - Winfield | 4,963 | 901 | Veterans Cemeteries Federal Construction Grant Fund |
| Kansas Soldiers Home - Repairs and Upgrades | 335 | 806 | Federal Construction Grant and State matching funds |
| Kansas Veterans Home - Repairs and Upgrades | 1,385 | 2,556 | Federal Construction Grant and State matching funds |
| School for the Deaf - | | | |
| Energy Performance Contract | 0 | 1,034 | Line of Credit – Master Lease Program |
| Fort Hays State University - | | | |
| Married student housing renovation | 2,667 | 933 | Revenue bonds 2003D-1 secured by project revenues |
| Wichita State University - | | | |
| Marcus Welcome Center | 556 | 3,909 | Private donations |
| Engineering Research Lab Bldg | 555 | 1,445 | KDFA Bonds |
| Kansas State University - | | | |
| Food Safety and Security Research Facility | 3,100 | 36,100 | Revenue bonds secured by research overhead revenues, Kansas Educational Building Fund |
| Ford Hall Renovation | 2,000 | 1,700 | Bonds |
| Jardine Apartments Project | 0 | 102,000 | Bonds |
| Ackert Hall Phase III | 2,300 | 3,700 | Kansas Educational Building Fund |
| Pittsburg State University - | | | |

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| | | | |
|-------------------------------------------------------------|-------------------|-------------------|--------------------------------------------------------------|
| Bonita Terrace Apartments | 75 | 1,044 | Bonds |
| Veteran's Memorial Ampitheater | 1,027 | 295 | Gifts |
| University of Kansas - | | | |
| Malott Hall NIH Remodel | 176 | 2,624 | Federal grant, research overhead revenue and EBF (R&R) funds |
| Lippincott/Spooner Hall Utility Tunnel | 68 | 1,387 | State funding (R&R) |
| Structural Biology Center | 2,895 | 2,452 | Private donations |
| Bioscience research equipment | 3,587 | 1,413 | Revenue bonds secured by research overhead revenues |
| Reiger Scholarship Hall project | 476 | 2,854 | Private donations |
| Hall Center for the Humanities | 2,561 | 3,434 | Private donations |
| Edwards Campus Building No. 2 | 10,893 | 4,725 | Revenue bonds secured by project revenues, private donations |
| Energy Performance Contract | 17,987 | 1,593 | University payments through Master Lease Program |
| University of Kansas Medical Center - | | | |
| Biomedical Research Building | 3,247 | 61,756 | Bonds and gifts |
| Research Support Facility | 5,726 | 514 | Bonds and university funds |
| Chevron Energy Conservation | 7,789 | 5,291 | Bonds |
| Wahl East 5 th and 6 th F1 Renovation | 2,674 | 1,226 | Grant funds (50%) and university funds (50%) |
| Total | <u>\$ 225,411</u> | <u>\$ 318,333</u> | |

H. Interfund Receivables, Payables, and Transfers

Due from/to other funds

Due from/to other funds represent interfund accounts receivable and payable. The total of due from/to other funds at June 30, 2004, is as follows (expressed in thousands):

| Fund | Due from Other Funds | Due to Other Funds |
|--------------------------------|-------------------------|-----------------------|
| General Fund | \$ 3,500 | \$ 1,560 |
| Social and Rehabilitation Fund | 0 | 267 |
| Non-major Governmental Funds | 5,164 | 55 |
| Non-major Enterprise Funds | 0 | 5,501 |
| Internal Service Funds | 0 | 1,281 |
| Total | <u>\$ 8,664</u> | <u>\$ 8,664</u> |

Advances from/to other funds

Advances from/to other funds represent long-term loans from one fund to another fund. Advances at June 30, 2004, were as follows (expressed in thousands):

| Fund | Advances from Other Funds | Advances to Other Funds |
|--------------------------------|------------------------------|----------------------------|
| General Fund | \$ 200,482 | \$ 0 |
| Social and Rehabilitation Fund | 2,939 | 80 |
| Transportation Fund | 0 | 125,189 |
| Non-major Governmental Funds | 136 | 79,888 |
| Health Care Stabilization Fund | 0 | 1 |
| Non-major Enterprise Funds | 0 | 4,000 |
| Internal Service Funds | 5,630 | 29 |
| Total | <u>\$ 209,187</u> | <u>\$ 209,187</u> |

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The interfund balances designated as due from/to other funds are short-term receivables and payables resulting from the time lag between the dates that a) interfund goods and services are provided or reimbursable expenditures occur; b) transactions are recorded in the accounting system; and c) payments between funds are made.

Net transfers by major funds are as follows:

| <u>Fund</u> | <u>Net Transfers In</u> | <u>Net Transfers Out</u> |
|-----------------------------------|-------------------------|--------------------------|
| Governmental | \$ 0 | \$ (52,015) |
| Social and Rehabilitation | 0 | 242,339 |
| Transportation | 62,554 | 0 |
| Transportation - Capital Projects | 0 | 261,703 |
| Non-major Governmental | 457,764 | 0 |
| Health Care Stabilization | 4,477 | 0 |
| Unemployment Insurance | 0 | 2,463 |
| Non-major Enterprise | 0 | 70,305 |
| | <u>\$ 524,795</u> | <u>\$ 524,795</u> |

State of Kansas
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III. Detailed Notes On All Funds

I. Short-term Obligations

Short-term obligations at June 30, 2004 and changes for the fiscal year then ended (expressed in thousands) are as follows:

| | 6/30/03 Beginning Balance | Additions | Deletions | 6/30/04 Ending Balance |
|------------------------------------------------------|---------------------------------|------------|------------|------------------------------|
| <i>Governmental Activities</i> | | | | |
| Certificates of Indebtedness | \$ 0 | \$ 450,000 | \$ 450,000 | \$ 0 |
| Accrued receivables: | | | | |
| State Building Fund | 0 | 32,279 | 32,279 | 0 |
| Children's Initiatives Fund | 0 | 23,374 | 23,374 | 0 |
| Economic Development Initiatives Fund | 0 | 21,214 | 21,214 | 0 |
| KDFA Series 2003-1, bond anticipation note, 1.75% | 6,000 | 0 | 6,000 | 0 |
| Total short-term obligations | \$ 6,000 | \$ 526,867 | \$ 532,867 | \$ 0 |

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$450 million was issued on July 1, 2003 and redeemed on June 30, 2004.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2004, \$21.5 million was posted to the Kansas Educational Building Fund and \$10.8 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2004.

Per 2003 Session Laws, chapter 138, section 40 (i) (I), on July 1, 2003, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2004 a receivable was posted for \$23.4 million and was reduced to zero in April 2004.

Per 2003 Session Laws, chapter 138, section 40 (j) (1), on July 1, 2003, receivables are posted to the State Treasurer's receivables for the Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2004 a receivable was posted for \$21.2 million and was reduced to zero in December 2003.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the KDFA has authorized the issuance of notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

The \$6,000,000 KDFA Bond Anticipation Note, Series 2003-1, was issued to fund a capital improvement project for the Kansas Army National Guard Armory. The loan was provided by the Pooled Money Investment Board for a term of 180 days (due December 24, 2003) at an interest rate of 1.75%. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2003 J-2, on August 8, 2003, in the amount of \$6,135,000. The bond anticipation note was subsequently redeemed on August 8, 2003.

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III. Detailed Notes On All Funds

J. Long-term Obligations

A summary of long-term obligations at June 30, 2004 for the fiscal year then ended is as follows (expressed in thousands):

| | Government Activities | Business-type Activities | Component Units | Total |
|------------------------------------|--------------------------|-----------------------------|--------------------|--------------|
| Revenue bonds payable | \$ 2,164,339 | \$ 584,824 | \$ 619,409 | \$ 3,368,572 |
| Sales tax limited obligation bonds | 160,830 | 0 | 0 | 160,830 |
| Notes payable | 22,549 | 0 | 82,316 | 104,865 |
| Capital leases payable | 161,801 | 0 | 0 | 161,801 |
| Arbitrage rebate payable | 385 | 3,123 | 16 | 3,524 |
| Claims and judgements | 49,396 | 185,909 | 0 | 235,305 |
| Compensated absences | 94,726 | 54 | 44,887 | 139,667 |
| Other | | (930) | 17,129 | 16,199 |
| Total long-term obligations | \$ 2,654,026 | \$ 772,980 | \$ 763,757 | \$ 4,190,763 |

Long-term obligations at June 30, 2004 and changes for the fiscal year then ended are as follows (expressed in thousands):

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/03 Beginning Balance | Additions | Deletions | 6/30/04 Ending Balance | Amounts Due In One Year |
|-----------------------------------------------|----------------|-------------------|---------------------|-------------------------------|---------------------------------|------------|--------------|------------------------------|-------------------------------|
| Governmental Activities | | | | | | | | | |
| <u>Revenue bonds payable:</u> | | | | | | | | | |
| KDFA Series 1996 SK-1 | 1996 | 3.30 – 4.75% | 2006 | \$ 8,890 | \$ 3,060 | \$ 0 | \$ 975 | \$ 2,085 | \$ 1,020 |
| KDFA Series 1998 V | 1999 | 4.25 – 5.00% | 2008 | 11,195 | 6,845 | 0 | 1,240 | 5,605 | 1,300 |
| KDFA Series 1999 E | 1999 | 4.00 – 5.00% | 2009 | 34,470 | 22,025 | 0 | 3,280 | 18,745 | 3,435 |
| KDFA Series 2001 M | 2002 | 3.50 – 5.00% | 2011 | 32,390 | 28,390 | 0 | 3,070 | 25,320 | 3,175 |
| KDFA Series 2003 H | 2004 | 1.41 – 5.21% | 2014 | 40,250 | 0 | 40,250 | 0 | 40,250 | 3,430 |
| KDFA Series 2003 J | 2004 | 2.00 – 5.25% | 2025 | 6,135 | 0 | 6,135 | 0 | 6,135 | 0 |
| KDFA Series 2004 A | 2004 | 2.00 – 5.00% | 2024 | 50,730 | 0 | 50,730 | 0 | 50,730 | 1,475 |
| KDFA Series 2004 C | 2004 | 3.43 – 5.50% | 2034 | 500,000 | 0 | 500,000 | 0 | 500,000 | 0 |
| KDOT Series 1992 | 1992 | 5.00 – 7.25% | 2012 | 113,950 | 44,325 | 0 | 44,325 | 0 | 0 |
| KDOT Series 1992 A | 1993 | 4.30 – 5.70% | 2005 | 51,150 | 6,605 | 0 | 6,605 | 0 | 0 |
| KDOT Series 1993 | 1993 | 4.40 – 6.00% | 2013 | 250,000 | 14,680 | 0 | 14,680 | 0 | 0 |
| KDOT Series 1993 A | 1993 | 2.65 – 5.63% | 2012 | 147,405 | 39,860 | 0 | 18,830 | 21,030 | 950 |
| KDOT Series 1994 | 1994 | 3.90 – 6.13% | 2014 | 125,000 | 66,580 | 0 | 66,580 | 0 | 0 |
| KDOT Series 1994 A | 1995 | 4.80 – 5.60% | 2015 | 20,360 | 9,160 | 0 | 9,160 | 0 | 0 |
| KDOT Series 1998 | 1998 | 3.65 – 5.50% | 2015 | 189,195 | 173,110 | 0 | 62,615 | 110,495 | 4,645 |
| KDOT Series 1999 | 2000 | 4.40 – 5.75% | 2019 | 325,000 | 55,060 | 0 | 48,405 | 6,655 | 0 |
| KDOT Series 2000 A, B & C | 2001 | 4.50 – 5.85% | 2021 | 350,000 | 350,000 | 0 | 150,000 | 200,000 | 0 |
| KDOT Series 2002 A | 2003 | Variable | 2012 | 199,600 | 192,595 | 0 | 6,905 | 185,690 | 32,865 |
| KDOT Series 2002 B & C | 2003 | 3.39% | 2020 | 320,005 | 320,005 | 0 | 0 | 320,005 | 0 |
| KDOT Series 2002 D | 2003 | Variable | 2012 | 88,110 | 88,110 | 0 | 0 | 88,110 | 0 |
| KDOT Series 2003 A & B | 2004 | 3.13 – 5.00% | 2014 | 248,190 | 0 | 248,190 | 0 | 248,190 | 0 |
| KDOT Series 2003 C | 2004 | 3.36% | 2016 | 150,275 | 0 | 150,275 | 0 | 150,275 | 0 |
| KDOT Series 2004 A | 2004 | 4.50 – 5.50% | 2023 | 250,000 | 0 | 250,000 | 0 | 250,000 | 0 |
| <u>Plus deferred amounts:</u> | | | | | | | | | |
| Net unamortized premium (discount) | | | | 0 | 4,994 | 3,176 | 547 | 7,623 | 0 |
| Unamortized deferred refunding difference | | | | 0 | (50,782) | (21,822) | | (72,604) | 0 |
| Total revenue bonds payable | | | | 3,512,300 | 1,374,622 | 1,226,934 | 437,217 | 2,164,339 | 52,295 |
| <u>Sales tax limited obligation bonds:</u> | | | | | | | | | |
| 1999 KISC | 1999 | 4.20 – 5.25% | 2027 | 17,496 | 17,496 | 0 | 0 | 17,496 | \$ 0 |
| 2001 Project Area B | 2001 | 4.00 – 5.10% | 2020 | 20,639 | 20,639 | 0 | 0 | 20,639 | 0 |
| 2001 NFM | 2001 | 7.27% | 2020 | 46,300 | 46,299 | 0 | 0 | 46,299 | 439 |
| 2001 Cabelas Series C-1 | 2001 | Variable | 2020 | 43,543 | 28,938 | 6,463 | 421 | 34,980 | 1,375 |
| 2001 Cabelas Series C-2 | 2001 | 7.27% | 2020 | 15,883 | 3,518 | 6,163 | 360 | 9,321 | 307 |
| 2002 Subordinate KISC | 2002 | 5.00 – 8.00% | 2022 | 4,550 | 4,550 | 0 | 403 | 4,147 | 493 |
| RED Development | 2003 | Variable | 2020 | 51,449 | 14,852 | 12,537 | 544 | 26,845 | 0 |
| Beaumont Hotel | 2004 | Variable | 2021 | 1,103 | 0 | 1,103 | 0 | 1,103 | 0 |
| Total sales tax limited obligation bonds | | | | 200,963 | 136,292 | 26,266 | 1,728 | 160,830 | 2,614 |
| <u>Notes payable:</u> | | | | | | | | | |
| Water supply storage assurance | | | | 1,972 | 911 | 0 | 222 | 689 | 227 |
| Water supply storage in Federal reservoirs | | | | 27,273 | 19,326 | 0 | 400 | 18,926 | 463 |
| Landon State Office Building | | | | 15,775 | 2,249 | 0 | 562 | 1,687 | 562 |
| Uninsurable health insurance plan | | | | 2,000 | 2,000 | 0 | 2,000 | 0 | 0 |
| Printing plant | | | | 3,857 | 1,413 | 0 | 166 | 1,247 | 172 |
| Total notes payable | | | | 50,877 | 25,899 | 0 | 3,350 | 22,549 | 1,424 |
| Capital leases payable | | | | | 152,539 | 19,062 | 9,800 | 161,801 | 9,939 |
| Arbitrage rebate payable | | | | | 677 | 410 | 702 | 385 | 0 |
| Claims and judgments | | | | | 42,816 | 344,108 | 337,528 | 49,396 | 29,582 |
| Compensated absences | | | | | 95,459 | 0 | 718 | 94,726 | 52,564 |
| Total Governmental Activities | | | | \$ 1,828,304 | \$ 1,616,780 | \$ 791,043 | \$ 2,654,026 | \$ 148,418 | |
| Business-type Activities | | | | | | | | | |
| <u>Revenue bonds payable:</u> | | | | | | | | | |
| KDFA Series 1993 SRF I & II | 1993 | 3.25 - 6.13% | 2016 | \$ 71,200 | \$ 14,210 | \$ 0 | \$ 14,210 | \$ 0 | \$ 0 |
| KDFA Series 1997 I & 2 | 1998 | 4.13 - 5.00% | 2020 | 45,420 | 40,935 | 0 | 1,625 | 39,310 | 1,695 |
| KDFA Series 1997 I & II | 1997 | 4.10 - 5.60% | 2017 | 39,260 | 9,125 | 0 | 1,370 | 7,755 | 1,530 |
| KDFA Series 1998 I & 2 | 1999 | 3.88 - 5.25% | 2021 | 39,690 | 36,580 | 0 | 1,340 | 35,240 | 1,400 |
| KDFA Series 1998 II | 1998 | 3.75 - 5.25% | 2020 | 80,500 | 73,860 | 0 | 2,135 | 71,725 | 2,315 |
| KDFA Series 2000 I & II | 2000 | 4.60 - 6.13% | 2022 | 82,915 | 26,655 | 0 | 1,780 | 24,875 | 2,050 |
| KDFA Series 2000 I & 2 | 2000 | 4.75 - 5.75% | 2023 | 53,500 | 52,765 | 0 | 1,590 | 51,175 | 1,670 |

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| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/03 Beginning Balance | Additions | Deletions | 6/30/04 Ending Balance | Amounts Due In One Year |
|---------------------------------------------|----------------|-------------------|---------------------|-------------------------------|---------------------------------|------------------|-------------------|------------------------------|-------------------------------|
| Business-type Activities (Continued) | | | | | | | | | |
| <u>Revenue bonds payable:</u> | | | | | | | | | |
| KDFA Series 2001 I & II | 2002 | 3.00 - 5.50% | 2022 | \$ 141,045 | \$ 140,010 | \$ 0 | \$ 2,120 | \$ 137,890 | \$ 3,090 |
| KDFA Series 2002 I & 2 | 2002 | 4.00 - 5.50% | 2024 | 51,805 | 51,805 | 0 | 0 | 51,805 | 1,605 |
| KDFA Series 2002 II | 2003 | 2.26 - 5.50% | 2024 | 101,575 | 101,575 | 0 | 4,000 | 97,575 | 2,585 |
| KDFA Series 2004 I & II | 2004 | 2.00 - 5.25% | 2023 | 50,140 | 0 | 50,140 | 0 | 50,140 | 1,000 |
| <u>Plus deferred amounts:</u> | | | | | | | | | |
| Net unamortized premium (discount) | | | | 0 | 16,325 | 1,009 | 0 | 17,334 | 0 |
| Total revenue bonds payable | | | | <u>757,050</u> | <u>563,845</u> | <u>51,149</u> | <u>30,170</u> | <u>584,824</u> | <u>18,940</u> |
| Arbitrage rebate payable | | | | | 4,515 | 4 | 1,396 | 3,123 | 1,072 |
| Claims and judgments | | | | | 185,685 | 1,020 | 796 | 185,909 | 31,614 |
| Compensated absences | | | | | 56 | 0 | 2 | 54 | 48 |
| Other | | | | | 0 | (930) | | (930) | 0 |
| Total Business-type Activities | | | | <u>\$ 754,101</u> | <u>\$ 51,243</u> | <u>\$ 32,364</u> | <u>\$ 772,980</u> | <u>\$ 51,674</u> | |
| Component Units | | | | | | | | | |
| <u>Revenue bonds payable:</u> | | | | | | | | | |
| Board of Regents Series 1969 | 1970 | 3.00 - 7.13% | 2009 | \$ 1,100 | \$ 250 | \$ 0 | \$ 40 | \$ 210 | \$ 40 |
| KDFA Series 1989 E | 1990 | 6.00 - 7.25% | 2010 | 1,401 | 733 | 47 | 131 | 649 | 128 |
| KDFA Series 1991 D | 1992 | 4.70 - 6.50% | 2007 | 1,795 | 725 | 0 | 140 | 585 | 150 |
| KDFA Series 1993 L | 1994 | 3.40 - 5.15% | 2009 | 3,975 | 1,115 | 0 | 280 | 835 | 210 |
| KDFA Series 1994 C | 1995 | 4.00 - 5.90% | 2010 | 10,320 | 2,255 | 0 | 350 | 1,905 | 380 |
| KDFA Series 1995 E | 1996 | 4.10 - 5.20% | 2007 | 2,734 | 870 | 0 | 365 | 505 | 280 |
| KDFA Series 1995 G | 1996 | 3.80 - 4.75% | 2005 | 2,095 | 690 | 0 | 240 | 450 | 450 |
| KDFA Series 1995 K | 1996 | 3.75 - 5.40% | 2016 | 3,835 | 3,020 | 0 | 145 | 2,875 | 155 |
| KDFA Series 1996 A | 1996 | 4.00 - 5.20% | 2008 | 5,105 | 1,485 | 0 | 640 | 845 | 340 |
| KDFA Series 1996 E | 1996 | 3.90 - 5.75% | 2021 | 4,100 | 3,465 | 0 | 105 | 3,360 | 110 |
| KDFA Series 1996 J | 1997 | 3.85 - 5.40% | 2010 | 5,600 | 1,845 | 0 | 315 | 1,530 | 335 |
| KDFA Series 1997 C | 1997 | 4.70 - 5.30% | 2011 | 3,255 | 2,095 | 0 | 230 | 1,865 | 240 |
| KDFA Series 1997 G-1 & G-2 | 1998 | 3.75 - 5.50% | 2012 | 109,281 | 81,308 | 42 | 7,140 | 74,211 | 7,500 |
| KDFA Series 1998 B | 1998 | 3.90 - 5.00% | 2018 | 9,320 | 7,885 | 0 | 325 | 7,560 | 340 |
| KDFA Series 1998 D | 1998 | 3.70 - 5.05% | 2023 | 4,290 | 3,790 | 0 | 100 | 3,690 | 110 |
| KDFA Series 1998 E | 1999 | 3.40 - 4.90% | 2024 | 4,750 | 4,450 | 0 | 110 | 4,340 | 115 |
| KDFA Series 1998 H | 1998 | 3.75 - 4.80% | 2013 | 2,320 | 1,765 | 0 | 125 | 1,640 | 130 |
| KDFA Series 1998 L | 1999 | 3.80 - 5.00% | 2019 | 5,590 | 4,870 | 0 | 205 | 4,665 | 215 |
| KDFA Series 1998 P | 1999 | 3.00 - 4.85% | 2019 | 3,650 | 3,220 | 0 | 120 | 3,100 | 125 |
| KDFA Series 1999 A-1 & A-2 | 1999 | 3.20 - 5.00% | 2012 | 28,210 | 25,120 | 0 | 2,830 | 22,290 | 2,920 |
| KDFA Series 1999 B | 1999 | 3.60 - 5.00% | 2019 | 2,920 | 2,625 | 0 | 105 | 2,520 | 110 |
| KDFA Series 1999 C | 1999 | 4.00 - 5.10% | 2019 | 3,085 | 2,780 | 0 | 110 | 2,670 | 115 |
| KDFA Series 1999 D | 1999 | 4.00 - 4.75% | 2014 | 11,170 | 9,450 | 0 | 610 | 8,840 | 650 |
| KDFA Series 1999 F | 2000 | 3.70 - 5.00% | 2005 | 5,740 | 2,065 | 0 | 1,010 | 1,055 | 1,055 |
| KDFA Series 1999 H | 2000 | 3.75 - 5.63% | 2020 | 17,830 | 16,245 | 0 | 565 | 15,680 | 595 |
| KDFA Series 1999 N | 2000 | 4.00 - 5.88% | 2035 | 21,645 | 1,865 | 0 | 0 | 1,865 | 275 |
| KDFA Series 2000 B | 2000 | 4.70 - 5.90% | 2015 | 5,705 | 4,950 | 0 | 270 | 4,680 | 285 |
| KDFA Series 2000 D | 2001 | 4.60 - 5.60% | 2015 | 1,735 | 1,500 | 0 | 85 | 1,415 | 90 |
| KDFA Series 2000 R | 2001 | 4.35 - 4.60% | 2005 | 4,530 | 2,850 | 0 | 905 | 1,945 | 950 |
| KDFA Series 2000 T | 2001 | 4.35 - 5.13% | 2015 | 2,090 | 1,885 | 0 | 110 | 1,775 | 115 |
| KDFA Series 2000 V | 2001 | 4.35 - 5.38% | 2021 | 16,370 | 15,415 | 0 | 1,000 | 14,415 | 1,000 |
| KDFA Series 2001 B | 2001 | 3.65 - 5.20% | 2021 | 2,805 | 2,635 | 0 | 100 | 2,535 | 100 |
| KDFA Series 2001 D | 2001 | 4.25 - 5.25% | 2021 | 48,895 | 46,040 | 0 | 1,625 | 44,415 | 1,710 |
| KDFA Series 2001 F | 2001 | 3.30 - 5.50% | 2012 | 29,905 | 27,190 | 0 | 2,665 | 24,525 | 2,785 |
| KDFA Series 2001 J | 2002 | 3.50 - 4.30% | 2013 | 5,300 | 4,565 | 0 | 435 | 4,130 | 445 |
| KDFA Series 2001 N | 2001 | 4.25 - 5.25% | 2014 | 14,260 | 11,815 | 0 | 1,255 | 10,560 | 1,315 |
| KDFA Series 2001 S | 2002 | 4.13 - 5.50% | 2021 | 38,635 | 25,380 | 0 | 5,835 | 19,545 | 4,195 |
| KDFA Series 2001 U | 2002 | 3.10 - 5.00% | 2021 | 10,295 | 9,515 | 0 | 505 | 9,010 | 525 |
| KDFA Series 2001W | 2002 | 3.00 - 5.00% | 2022 | 49,865 | 49,140 | 0 | 1,570 | 47,570 | 1,665 |
| KDFA Series 2002 A | 2002 | 3.50 - 5.00% | 2027 | 26,560 | 25,825 | 0 | 1,040 | 24,785 | 1,075 |
| KDFA Series 2002 C | 2002 | 3.00 - 5.00% | 2022 | 15,830 | 15,830 | 0 | 575 | 15,255 | 600 |
| KDFA Series 2002 H | 2003 | 2.50 - 4.70% | 2022 | 3,765 | 3,610 | 0 | 140 | 3,470 | 145 |
| KDFA Series 2002 J-1 & J-2 | 2003 | 3.39 - 3.58% | 2035 | 33,355 | 33,355 | 0 | 0 | 33,355 | 545 |
| KDFA Series 2002 K | 2003 | 4.30 - 5.00% | 2023 | 5,120 | 5,120 | 0 | 0 | 5,120 | 0 |
| KDFA Series 2002 N | 2003 | 3.00 - 5.25% | 2023 | 52,075 | 52,075 | 0 | 990 | 51,085 | 1,790 |
| KDFA Series 2002 P | 2003 | 3.00 - 5.00% | 2021 | 12,150 | 12,150 | 0 | 450 | 11,700 | 465 |
| KDFA Series 2003 A-1 & A-2 | 2003 | 1.80 - 5.50% | 2023 | 2,610 | 2,610 | 0 | 85 | 2,525 | 85 |
| KDFA Series 2003 C | 2003 | 4.67 - 5.00% | 2033 | 72,670 | 72,670 | 0 | 0 | 72,670 | 2,890 |
| KDFA Series 2003 D-1 & D-2 | 2003 | 2.00 - 4.70% | 2028 | 6,470 | 6,470 | 0 | 185 | 6,285 | 205 |
| KDFA Series 2003 J | 2004 | 2.00 - 5.25% | 2025 | 34,100 | 0 | 34,100 | 0 | 34,100 | 0 |
| <u>Plus deferred amounts:</u> | | | | | | | | | |
| Net unamortized premium (discount) | | | | | 2,770 | 269 | 239 | 2,800 | |
| Total Revenue Bonds Payable | | | | <u>\$ 770,211</u> | <u>\$ 621,350</u> | <u>\$ 34,458</u> | <u>\$ 36,400</u> | <u>\$ 619,409</u> | <u>\$ 40,053</u> |
| <u>Notes payable:</u> | | | | | | | | | |
| Plant science building | | | | 4,086 | 1,073 | 0 | 207 | 866 | 213 |
| KSU Grain Science Center | | | | 3,355 | 0 | 3,355 | 0 | 3,355 | 0 |
| KSU line of credit - oracle project | | | | 1,673 | 810 | 787 | 402 | 1,195 | 398 |
| Component units of university system | | | | 97,124 | 85,550 | 177 | 8,827 | 76,900 | 5,561 |
| Total notes payable | | | | <u>106,238</u> | <u>87,434</u> | <u>4,319</u> | <u>9,437</u> | <u>82,316</u> | <u>6,172</u> |
| Arbitrage rebate payable | | | | | 23 | 36 | 42 | 16 | 0 |
| Compensated absences | | | | | 43,804 | 1,083 | 0 | 44,887 | 39,963 |
| Other | | | | | 0 | 17,129 | 0 | 17,129 | 0 |
| Total Component Units | | | | <u>\$ 752,611</u> | <u>\$ 57,025</u> | <u>\$ 45,879</u> | <u>\$ 763,757</u> | <u>\$ 86,188</u> | |

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III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding at June 30, 2004, which have scheduled debt service amounts (expressed in thousands):

| | Governmental Activities | | Business-type Activities | | Component Units | |
|------------------------------------------------|----------------------------|---------------------|-----------------------------|-------------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| <u>Revenue bonds:</u> | | | | | | |
| 2005 | \$ 52,295 | \$ 130,147 | \$ 18,940 | \$ 28,792 | \$ 40,053 | \$ 28,494 |
| 2006 | 61,800 | 119,383 | 21,960 | 28,003 | 37,790 | 26,772 |
| 2007 | 67,495 | 107,975 | 23,330 | 26,987 | 36,701 | 25,111 |
| 2008 | 65,355 | 104,386 | 24,795 | 25,877 | 38,359 | 23,378 |
| 2009 | 77,130 | 98,405 | 26,510 | 24,681 | 37,331 | 21,610 |
| 2010-2014 | 625,595 | 393,232 | 158,510 | 101,464 | 159,505 | 83,248 |
| 2015-2019 | 557,465 | 261,628 | 168,265 | 56,240 | 125,320 | 51,651 |
| 2020-2024 | 450,330 | 123,379 | 125,180 | 14,833 | 105,975 | 19,698 |
| 2025-2029 | 118,050 | 62,382 | 0 | 0 | 21,820 | 5,396 |
| 2030-2034 | 153,805 | 26,278 | 0 | 0 | 13,010 | 1,438 |
| 2035-2039 | 0 | 0 | 0 | 0 | 745 | 13 |
| Unamortized premium | 7,623 | 0 | 17,334 | 0 | 2,800 | 0 |
| Unamortized deferred refunding | (72,604) | 0 | 0 | 0 | 0 | 0 |
| Totals | <u>2,164,339</u> | <u>1,427,195</u> | <u>584,824</u> | <u>306,877</u> | <u>619,409</u> | <u>286,809</u> |
| <u>Sales tax limited obligation bonds:</u> | | | | | | |
| 2005 | 2,614 | 9,545 | 0 | 0 | 0 | 0 |
| 2006 | 3,087 | 9,350 | 0 | 0 | 0 | 0 |
| 2007 | 5,296 | 9,191 | 0 | 0 | 0 | 0 |
| 2008 | 6,294 | 8,867 | 0 | 0 | 0 | 0 |
| 2009 | 6,854 | 8,552 | 0 | 0 | 0 | 0 |
| 2010-2014 | 43,166 | 36,203 | 0 | 0 | 0 | 0 |
| 2015-2019 | 58,610 | 21,807 | 0 | 0 | 0 | 0 |
| 2020-2024 | 28,714 | 6,293 | 0 | 0 | 0 | 0 |
| 2025-2029 | 6,195 | 6,075 | 0 | 0 | 0 | 0 |
| Totals | <u>160,830</u> | <u>115,883</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Notes payable:</u> | | | | | | |
| 2005 | 1,424 | 847 | 0 | 0 | 6,172 | 2,840 |
| 2006 | 1,447 | 778 | 0 | 0 | 7,466 | 2,692 |
| 2007 | 1,467 | 713 | 0 | 0 | 5,726 | 2,550 |
| 2008 | 691 | 648 | 0 | 0 | 9,077 | 2,377 |
| 2009 | 711 | 628 | 0 | 0 | 4,781 | 2,230 |
| 2010-2014 | 3,310 | 2,831 | 0 | 0 | 31,217 | 8,566 |
| 2015-2019 | 3,502 | 2,269 | 0 | 0 | 10,327 | 2,270 |
| 2020-2024 | 4,174 | 1,597 | 0 | 0 | 4,682 | 1,544 |
| 2025-2029 | 3,493 | 852 | 0 | 0 | 2,868 | 0 |
| 2030-2034 | 1,518 | 237 | 0 | 0 | 0 | 0 |
| 2035-2039 | 530 | 75 | 0 | 0 | 0 | 0 |
| 2040-2044 | 282 | 196 | 0 | 0 | 0 | 0 |
| Totals | <u>22,549</u> | <u>11,671</u> | <u>0</u> | <u>0</u> | <u>82,316</u> | <u>25,069</u> |
| Capital leases payable | 161,801 | 0 | 0 | 0 | 0 | 0 |
| Long-term debt without scheduled debt service: | | | | | | |
| Arbitrage rebate payable | 385 | 0 | 3,123 | 0 | 16 | 0 |
| Claims and judgements | 49,396 | 0 | 185,909 | 0 | 0 | 0 |
| Compensated absences | 94,726 | 0 | 54 | 0 | 44,887 | 0 |
| Other | 0 | 0 | (930) | 0 | 17,129 | 0 |
| Total long-term obligations | <u>\$ 2,654,026</u> | <u>\$ 1,554,749</u> | <u>\$ 772,980</u> | <u>\$ 306,877</u> | <u>\$ 763,757</u> | <u>\$ 311,878</u> |

III. Detailed Notes On All Funds

General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

Revenue Bonds

The **Kansas Development Finance Authority (KDFA)** was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. Please reference Note J. above for KDFA revenue bonds.

The **Kansas Department of Transportation (KDOT)** has issued nineteen outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Comprehensive Transportation Program. The State's Comprehensive Transportation Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 1999 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees.

The coupon interest rate on outstanding bonds varies from 2.125 percent to 5.5 percent. In addition, the Series 2000 B and C Bonds and Series 2002 B, C and D Bonds were issued as variable rate instruments whose rates change on a daily, weekly, or 28-day basis depending on their respective individual modes. During the year, interest rates ranged from 0.51 percent to 1.19 percent on the daily adjustable bonds, from 0.6 percent to 1.25 percent on the weekly adjustable bonds and 0.9 percent to 1.2 percent on the 28-day adjustable.. The 2000 B and C Bonds and 2002 B, C and D Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2004, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2004 for tendered bonds, the Series 2000 B and C Bonds and 2002 B, C and D Bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

The **Board of Regents of the State of Kansas** (Regents) has issued one outstanding series of Revenue Bonds to construct a dormitory at Emporia State University. Principal and interest payments on the bonds are paid from revenues collected from the operation of the dormitory.

Sales Tax Limited Obligation Bonds

In March 1998, the Unified Government of Wyandotte County/Kansas City, KS established the Prairie Delaware Redevelopment District. The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State of Kansas have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State of Kansas, based on each entity's respective share of sales taxes generated within the District. The State of Kansas' proportional share is approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue has been recorded with the State of Kansas' long-term debt. This proportional share may change in the future if the sales taxes assessed by the local or state governments are modified.

III. Detailed Notes On All Funds

Special Obligation and Private Activity Bonds

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special, limited obligations of KDFA, neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2004 balance sheet. KDFA's special obligation bonds at June 30, 2004 total \$1,545,093,917.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2004 balance sheet. KDFA's private activity bonds at June 30, 2004 total \$747,564,279.

Notes Payable

PMIB is authorized as directed by statute to loan funds from the State treasury to state agencies for various capital projects including the purchase of the State's printing plant and the renovation and purchase of the Landon state office building. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section J, Long-term Obligations - Primary Government, Governmental Funds and Section I, Short-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 23 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2004 for portions of the storage designated as "future use" storage.

Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2004 are as follows (expressed in thousands):

| <u>Fiscal Year</u> | |
|-------------------------------------------------------------------------------------|------------------|
| 2005 | \$ 7,303 |
| 2006 | 5,694 |
| 2007 | 5,094 |
| 2008 | 4,447 |
| 2009 | 3,157 |
| 2010-2014 | 8,761 |
| Total future minimum lease payments | <u>\$ 34,456</u> |
| Rent expenditures/expenses for operating leases for the year ended June 30, 2004 | <u>\$ 8,451</u> |

State of Kansas
Notes to the Financial Statements
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III. Detailed Notes On All Funds

Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the statement of net assets at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2004 (expressed in thousands):

| Year Ending June 30 | Governmental Activities | |
|------------------------|-------------------------|------------------|
| | Principal | Interest |
| 2005 | \$ 9,939 | \$ 7,215 |
| 2006 | 9,494 | 6,854 |
| 2007 | 10,429 | 6,932 |
| 2008 | 7,993 | 6,056 |
| 2009 | 7,561 | 5,693 |
| 2010-2014 | 37,994 | 26,376 |
| 2015-2019 | 27,279 | 16,056 |
| 2020-2024 | 21,343 | 10,088 |
| 2025-2029 | 20,474 | 5,166 |
| 2030-2034 | 9,296 | 467 |
| Total | <u>\$ 161,802</u> | <u>\$ 90,903</u> |

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2004, include the following (expressed in thousands):

| | Governmental Activities |
|--------------------------------|----------------------------|
| Land (non-depreciable) | \$ 9,926 |
| Buildings | 89,338 |
| Equipment | 78,334 |
| Less: Accumulated depreciation | (19,157) |
| Total | <u>\$ 158,441</u> |

Master Lease Purchase Program

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

State of Kansas
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III. Detailed Notes On All Funds

Defeasance of Debt

Primary Government

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2004 and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | 6/30/03 Beginning Balance | Current Year Defeased | Payments | 6/30/04 Ending Balance |
|---------------------------------|---------------------------------|-----------------------------|------------------|------------------------------|
| Governmental Activities | | | | |
| KDOT Series 1973 A | \$ 2,600 | \$ 0 | \$ 2,600 | \$ 0 |
| KDOT Series 1992 | 0 | 44,325 | 13,755 | 30,570 |
| KDOT Series 1993 | 0 | 14,680 | 14,680 | 0 |
| KDOT Series 1993 A | 0 | 17,930 | 0 | 17,930 |
| KDOT Series 1994 | 32,865 | 59,510 | 0 | 92,375 |
| KDOT Series 1994 A | 0 | 6,715 | 0 | 6,715 |
| KDOT Series 1998 | 0 | 58,190 | 0 | 58,190 |
| KDOT Series 1999 | 269,940 | 48,405 | 0 | 318,345 |
| KDOT Series 2000 A | 0 | 150,000 | 0 | 150,000 |
| Total governmental activities | <u>\$ 305,405</u> | <u>\$ 399,755</u> | <u>\$ 31,035</u> | <u>\$ 674,125</u> |
| Business-type Activities | | | | |
| KDFA Series 1993 SRF-I | \$ 6,345 | \$ 0 | \$ 6,345 | \$ 0 |
| KDFA Series 1993 SRF-II | 10,715 | 0 | 10,715 | 0 |
| KDFA Series 1997 II | 26,515 | 0 | 0 | 26,515 |
| KDFA Series 2000 II (Nov.) | 54,945 | 0 | 0 | 54,945 |
| KDFA Series 2002 II | 0 | 4,000 | 0 | 4,000 |
| WPC Series 1964 | 23,510 | 0 | 23,510 | 0 |
| Total business-type activities | <u>\$ 122,030</u> | <u>\$ 4,000</u> | <u>\$ 40,570</u> | <u>\$ 85,460</u> |

Information for bonds defeased in the current fiscal year is as follows (expressed in thousands):

| Bond Issue | Amount Defeased | Remaining Liability | Economic Gain (Loss)* | Aggregate Debt Service Reduction** |
|------------------------------------------------------------------------|--------------------|------------------------|--------------------------|---------------------------------------|
| Governmental Activities | | | | |
| KDOT Series 1992, 1993, 1993 A, 1994, 1994 A, 1998, 1999, 2000 A | \$ 399,755 | \$ 371,320 | \$ 3,899 | \$ 9,810 |
| Total defeased | <u>\$ 399,755</u> | <u>\$ 371,320</u> | <u>\$ 3,899</u> | <u>\$ 9,810</u> |
| Business-type Activities | | | | |
| KDFA Series 2002-II | \$ 4,000 | \$ 4,000 | \$ 74 | \$ 771 |
| Total defeased | <u>\$ 4,000</u> | <u>\$ 4,000</u> | <u>\$ 74</u> | <u>\$ 771</u> |

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III. Detailed Notes On All Funds

Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2004 and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | 6/30/03 Beginning Balance | Current Year Defeased | Payments | 6/30/04 Ending Balance |
|-----------------------|---------------------------------|-----------------------------|---------------|------------------------------|
| FHSU Series 1968 | \$ 100 | \$ 0 | \$ 20 | \$ 80 |
| KDFA Series 1999 N | 19,240 | 0 | 0 | 19,240 |
| KSU Series 1964 | 170 | 0 | 170 | 0 |
| KSU Series 1965 | 165 | 0 | 80 | 85 |
| KSU Series 1966 | 344 | 0 | 120 | 224 |
| KU Series 1964 | 140 | 0 | 140 | 0 |
| KUMC Series 1978 | 180 | 0 | 180 | 0 |
| Total component units | <u>\$ 20,339</u> | <u>\$ 0</u> | <u>\$ 710</u> | <u>\$ 19,629</u> |

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$385,000 for Governmental Activities, \$3,123,000 for Business-type Activities, and \$16,000 for Component Units.

*The economic gain is defined as the difference between the present values of the old and new debt service payments.

**The aggregate debt service reduction is defined as the difference between the refunded debt and the refunding debt.

III. Detailed Notes On All Funds

Derivative Instruments

Interest rate swap

KDFA Series 2002 J-2

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in August 2002, the Kansas Development Finance Authority entered into an interest rate swap in connection with its 2002 J-2 lease revenue bonds. The intention of the swap was to effectively change the variable interest rate of the bonds to a synthetic fixed rate of 3.39 percent.

Terms. The lease revenue bonds mature in December 2034 and the related swap agreement matures in December 2009. The swap's notional amount of \$22.58 million is equal to the par amount of the variable rate bonds. The swap agreement was executed at the same time the bonds were issued. Under the terms of the swap agreement, the KDFA pays the counterparty a fixed rate of 3.39 percent and receives a variable payment computed on the Bond Market Association Municipal Swap Index™ (BMA).

Fair Value. Because interest rates declined subsequent to the date of execution, the swap had a negative mid-market value of \$170,900 as of June 30, 2004.

Kansas Department of Transportation

Objective of the swaps. In order to protect against the potential of rising interest rates, the Department of Transportation entered into three separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Department would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2004, are included below. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

| Associated Bond Issue | Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values | Swap Termination Date | Counterparty Credit Rating |
|------------------------|-------------------|----------------|-----------------|------------------------|------------------|-----------------------|----------------------------|
| KDOT Series 2002 D | \$ 86,875 | 12/17/02 | 5.240% | 67% of LIBOR | \$ 859 | 03/01/12 | Aa3/A+ |
| KDOT Series 2002 B & C | 320,005 | 10/23/02 | 3.164% | 67% of LIBOR | 10,121 | 09/01/19 | A1/A+ and Aa1/AA* |
| KDOT Series 2003 C | 150,275 | 12/03/03 | 3.359% | 71% of LIBOR** | 3,458 | 09/01/15 | Aa3/A+ |
| | <u>\$ 557,155</u> | | | | <u>\$ 14,438</u> | | |

* - two counterparties

** - or the lessor of the Actual Bond Rate until September 1, 2010

KDOT Series 2002 D Swap - In connection with the issuance of \$86,875 of variable-rate bonds to refund outstanding KDOT Series 1993A bonds, on August 27, 2002 the Department of Transportation competitively bid the sale of an option on a floating-to-fixed 67 percent of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11,905 to be paid to KDOT in two installments of \$6,500 on March 1, 2006 and \$5,405 on March 1, 2007. The swaption allowed KDOT to effect a synthetic forward refunding of the Bonds to lock in savings based on then current market conditions. Under U.S. tax law, the Bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10,360 (11.92 percent of the Bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67 percent of LIBOR interest rate swap.

KDOT Series 2002B & C Swap - In connection with the issuance of \$320,005 of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002 the Department of Transportation competitively bid a floating-

III. Detailed Notes On All Funds

to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200,000 of notional principal and Salomon Smith Barney was awarded \$120,005 of notional principal. The executed transaction consisted of a \$320,005 17-year amortizing interest rate swap under which KDOT pays Goldman/Salomon a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

KDOT Series 2003C Swap - In connection with the issuance of \$150,275 of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, on November 20, 2003 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150,275 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

Fair Value. All of the KDOT swaps had a positive fair value as of June 30, 2004. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2004, the State was exposed to credit risk on all of KDOT's outstanding swaps because the swaps had positive fair values meaning the State would be exposed to credit risk in the amount of the derivatives' fair value. However, should interest rates change and the fair values of the swaps become negative, the State would no longer be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Basis risk. Basis risk is the risk that the interest rate paid by the Department of Transportation on the underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The Department of Transportation bears basis risk on each of its swaps. The Swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination risk. The Department of Transportation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.

K. Property Tax Accelerator

In fiscal year 2004, the property tax payment date for the second half of the year's property taxes was accelerated from June 20 to May 10th. This change caused local school districts to receive three major tax distributions in fiscal year 2004, instead of two. In addition, this change caused a \$13.7 million one-time revenue increase to the State General Fund in fiscal year 2004.

L. Revisions to Beginning Net Assets

Various adjustments were made to the beginning fund balances to correct for errors in the prior year financial statements and to implement a new accounting standard.

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III. Detailed Notes On All Funds

It was determined that the State's University System, which was previously reported as a blended component unit and part of the business-type activities in the financial statements as of and for the year ended June 30, 2003 should be recorded as a discretely presented component unit. The result of this change was to decrease business-type fund balances by approximately \$1,116,559,000.

The State adopted Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units" during the fiscal year ended June 30, 2004. This statement required the State to report entities related to the State Universities, primarily endowments and foundations. Net assets of these entities not previously reported totaled approximately \$1,273,421,000.

State of Kansas
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III. Detailed Notes On All Funds

The following table summarizes the changes to the fund balances as reported in the prior year financial statements (expressed in thousands):

| | State General Fund | Other Governmental Funds | Proprietary Funds | Fiduciary Funds | Component Units |
|---------------------------------------------------------------------------------------------------|---------------------------|--------------------------------|--------------------------|---------------------------|----------------------------|
| June 30, 2003 fund balances as previously reported | \$ (34,523) | \$ 709,007 | \$ 1,678,525 | \$8,930,442 | \$ 13,840 |
| Revisions to Fund Balances: | | | | | |
| Correction to record escheat property liability in proper fund | (38,774) | 38,774 | 0 | 0 | 0 |
| Correction to record Department of Commerce receivables | 0 | 20,045 | 0 | 0 | 0 |
| Correction to record Department of Social and Rehabilitation Services receivables | 0 | 8,262 | 0 | 0 | 0 |
| Record restricted cash for STAR bonds debt service | 0 | 29,520 | 0 | 0 | 0 |
| Change in presentation of University system proprietary fund to component unit | 0 | 0 | (1,116,559) | 0 | 1,116,559 |
| Inclusion of additional University System component units as required by GASB 39 | 0 | 0 | 0 | 0 | 1,273,421 |
| Correction for mis-calculation of liability in Workers' Compensation Fund | 0 | 0 | 111,687 | 0 | 0 |
| Correction for Water Funds accruals | 0 | 0 | 2,269 | 0 | 0 |
| Inclusion of College Savings Program Trust net assets | 0 | 0 | 0 | 423,435 | 0 |
| Correction for reporting of the Investment Trust net assets | 0 | 0 | 0 | 342,079 | 0 |
| Other Corrections | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>21,762</u> |
| Increase (decrease) in fund balance | <u>(38,774)</u> | <u>96,601</u> | <u>(1,002,603)</u> | <u>765,514</u> | <u>2,411,742</u> |
| June 30, 2003 fund balances as restated | <u><u>\$ (73,297)</u></u> | <u><u>\$ 805,608</u></u> | <u><u>\$ 675,922</u></u> | <u><u>\$9,695,956</u></u> | <u><u>\$ 2,425,582</u></u> |
| Effects on revenue and other financing sources over (under) expenditures and other financing uses | <u>\$ 0</u> | <u>\$ 28,307</u> | <u>\$ 113,956</u> | <u>\$ 0</u> | <u>\$ 176</u> |

IV. Other Information

A. Risk Management

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities.

In general, the State is self-insured for certain health care claims (prescription drug and dental plus three of eight medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Coverage for health care claims for prescription drugs and dental claims plus three of eight medical health plan options is provided by The Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund for all active employees, and The Post Employment Health and Dental Care Claims Health and Hospitalization Fund for post-employment populations (retirees). Risk is managed by the performance of full experience studies twice a year. The liability for unpaid claims is the plan reimbursement for services rendered or prescriptions received where the payment to the provider, the member, or the claims administrator has not occurred. These liabilities are estimated by analyzing the prior payment patterns for the same coverage or medical option.

The State Self-insurance Fund (SSIF) is self-insured and self-administered for providing workers' compensation coverage to the State's employees. The agencies make contributions to the SSIF to cover projected losses and net expenses. The SSIF also maintains a partial reserve to reduce the likelihood of additional required contributions due to adverse loss experience. The liability represents results from an annual actuarial study for claims reported but unpaid plus an estimate for claims incurred but not reported.

The remaining risk management activities of the State are included in the State General Fund. The State has not encountered difficulty in resolving past losses by using resources available at the time the loss occurred.

The Tort Claims Fund (TCF) provides payment of compromises, settlements, and final judgements arising from claims against the State or an employee of the State under the *Kansas Tort Claims Act*, and costs of defending the State or an employee. When the balance in the TCF is insufficient to pay a claim, a transfer is made from the State General Fund to the TCF. The maximum claim liability allowed under *The Kansas Tort Claims Act* is \$500,000 per occurrence or accident. At June 30, 2004 there were no material claims incurred but unpaid.

The State's self-insurance program covers all personal property losses and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). Claims in excess of \$500,000 are covered by commercial insurance under a statewide policy. The statewide policy has a limit of \$100,000,000 per occurrence except flood and earthquake, which are applied as annual aggregates separately to each peril, and a deductible of \$5,000,000 per occurrence for most buildings. The self-insurance program for personal and real estate property loss represents an estimate of amounts to be paid from currently expendable available financial resources. At June 30, 2004 there were no material claims incurred but unpaid.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider

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IV. Other Information

the effects of inflation, recent claim settlement trends (including frequency and amount of payments), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2004 (expressed in thousands):

| | Claims Liability Beginning Balance | Plus: Current Year Claims and Changes in Estimates | Less: Claim Payments | Claims Liability Ending Balance | Non-current Liability | Current Liability |
|-----------------------------------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------|----------------------------|------------------------------------------|--------------------------|----------------------|
| <i>Current fiscal year</i> | | | | | | |
| State Selfinsurance Fund | \$ 22,318 | \$ 17,125 | \$ (15,308) | \$ 24,135 | \$ 19,596 | \$ 4,539 |
| Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund* | 14,019 | 165,698 | (161,110) | 18,607 | 166 | 18,441 |
| Post Employment Health and Dental Care Claims Health and Hospitalization Fund** | 6,479 | 161,285 | (161,110) | 6,654 | 52 | 6,602 |
| Total | <u>\$ 42,816</u> | <u>\$ 344,108</u> | <u>\$ (337,528)</u> | <u>\$ 49,396</u> | <u>\$ 19,814</u> | <u>\$ 29,582</u> |
| <i>Prior fiscal year</i> | | | | | | |
| State Selfinsurance Fund | \$ 21,564 | \$ 14,679 | \$ (13,925) | \$ 22,318 | \$ 18,254 | \$ 4,064 |
| Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund* | 12,991 | 142,801 | (141,773) | 14,019 | 140 | 13,879 |
| Post Employment Health and Dental Care Claims Health and Hospitalization Fund** | 5,755 | 142,497 | (141,773) | 6,479 | 65 | 6,414 |
| Total | <u>\$ 40,310</u> | <u>\$ 299,977</u> | <u>\$ (297,471)</u> | <u>\$ 42,816</u> | <u>\$ 18,459</u> | <u>\$ 24,357</u> |

* Claim payments reflect all participants (active and post-employment). Claims liability ending balance reflects the active employee participant component.

** Claim payments reflect all participants (active and post-employment). Claims liability ending balance reflects the post-employment participant component.

B. Contingencies and Commitments

Litigation

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and estimates have been made regarding the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse affect on the financial position of the State, except for potential litigation involving the Kansas Department on Aging (KDOA) and the Kansas Department of Social and Rehabilitation Services (SRS) versus the Centers for Medicare and Medicaid Services (CMS) concerning the Kansas Intergovernmental Transfer (IGT) Program. CMS is challenging certain IGT claims. CMS deferred \$45.2 million during the fiscal year 2003 and 2004, but the State is not at risk for any IGT

IV. Other Information

refunds to the Federal government. Counsel is optimistic that the State will ultimately be successful in any action against CMS involving this matter.

As a result of an Office of Inspector General (OIG) audit finding, the Disability Determination Services disallowed Kansas Department of Social and Rehabilitation Services (SRS) \$4.9 million of indirect costs for fiscal years 1998 through fiscal year 2002 which were allocated through the SRS approved cost allocation plan. The SRS is currently appealing this finding.

The Kansas Department of Revenue has potential liabilities of \$32.3 million for corporate tax refunds.

Federal Financial Assistance

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State. There are no material federal grant reimbursements due to a federal agency.

C. Post-Employment Benefits

Primary Government

In addition to the pension benefits described in the Employee Retirement Systems and Pension Plans note, the State provides post-employment health care benefits to retirees who elect the Kansas Choice medical option. Retirees electing this option pay less than one hundred percent of the projected costs. The monthly amount of reduced cost (subsidy) ranges from zero dollars to \$98.18 for early retirees, and zero dollars to \$115.13 for Medicare eligible retirees. Early retirees are defined as those retirees not yet Medicare eligible. The participant is required to pay the medical and prescription costs less the subsidy. The employer contribution is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

| | Estimated Current Year Expenditures (Subsidies) | Eligible Participants | Enabling Legislation |
|----------------------------------------|-------------------------------------------------------|-----------------------|----------------------|
| Kansas Choice Post-Employment Benefits | \$774,350 | 5,193 | K.S.A. 75-6504 |

The State funds post-employment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

IV. Other Information

D. Employee Retirement Systems and Pension Plans

Kansas Public Employees Retirement System - Plan Descriptions

The Kansas Public Employees Retirement System (the System) is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74 Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Firemen's Retirement System (KP&F) and Kansas Retirement System for Judges (Judges). All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer groups. Participation by the State is mandatory, whereas participation by local political subdivisions is an option, but irrevocable once elected. The State Elected Officials Special Members Retirement System is also administered by the System. This system is closed to new members and only a small group is participating.

The System publishes its own financial report, which is available by contacting KPERS at 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603 or telephone 1-888-275-5737.

The System provides retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities, and certain other State political subdivisions. Although public schools are outside the State reporting entity, the State provides the required employers' contribution for public school employees' retirement benefits.

The System's total covered salaries and wages paid were approximately \$5,250.5 million. The State's total salaries and wages paid were approximately \$1,618.1 million of which approximately \$856.6 million or approximately 52.94 percent relates to employees participating in the System. The remaining approximately 47.06 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, employees who have not met the required tenure of employment for participation or those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership at June 30, 2004 unless otherwise noted is as follows:

| <u>Participating Employers</u> | <u>Membership</u> |
|--------------------------------|-------------------|
| KPERS | 1379 |
| KP&F | 74 |
| Judges | 1 |
| Total | <u>1454</u> |

MEMBERSHIP BY RETIREMENT SYSTEM (as of December 31, 2003)

| | <u>KPERS</u> | <u>KP&F</u> | <u>Judges</u> | <u>Total</u> |
|-----------------|----------------|-----------------|---------------|----------------|
| Retired | 55,509 | 3,456 | 159 | 59,124 |
| Active/Inactive | 181,614 | 7,581 | 265 | 189,460 |
| Total | <u>237,123</u> | <u>11,037</u> | <u>424</u> | <u>248,584</u> |

IV. Other Information

Other Retirement Plans

Faculty and other eligible unclassified employees of the Board of Regents (Regents) or educational institutions under its control must participate in the Regents' retirement plan. Authorized by statute, this defined contribution plan is funded through contributions by the employees and the Regents for the purchase of retirement annuities. Employees must participate in the plan after one year of service or at date of employment if certain waiver provisions are met. The contributions are fully vested with the first contribution.

Employees participating in the Regents' mandatory retirement plan are required to contribute 5.5 percent of their salary toward the purchase of their retirement annuity. During fiscal year 2004, employees contributed approximately \$28.1 million. During fiscal year 2004, the 8.5 percent employer contribution totaled \$43.4 million, representing covered wages of approximately \$510.5 million. These employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the voluntary tax-sheltered annuity program, which allows the member to purchase a tax-sheltered annuity contract as a supplement to the basic retirement program. These employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the deferred compensation program, which allows the member to defer compensation into the ING 457 program as a supplement to the basic retirement program.

On July 1, 1971, the control of the School for the Blind and the School for the Deaf was transferred from the Regents to the State Board of Education. Employees covered by the Regents' retirement at the time of the transfer could continue to purchase a retirement annuity or convert to KPERS. Employees who elected the annuity plan contribute 5.0 percent of their salary toward an annuity purchase. This is matched by a 5.0 percent employer contribution. During fiscal year 2004, \$3,431 was contributed by employers for employees' annuities representing covered wages of approximately \$68,611.

E. Subsequent Events

Creation of Kansas Health Care Authority

On November 9, 2004, Governor Sebelius announced the creation of a new division within the Department of Administration called the Kansas Health Care Authority. This new division will centralize health care purchases by the State. On July 1, 2005, medical services including Medicaid, MediKan, and HealthWave will be transferred from SRS to the Health Care Authority. This reorganization also includes a transfer of the administration of the Health Care Data Governing Board from KDHE to the Health Care Authority and moves the State Employee Health Plan already in the Department of Administration to the new Health Care Authority.

SRS will be renamed the Department of Human Services to more accurately reflect its focus on direct services to Kansans. Services remaining with the Department of Human Services include economic and employment support services, child support enforcement, vocational rehabilitation, child welfare services, mental health services, addiction services and community supports and services to persons with physical and developmental disabilities.

IV. Other Information

Bonds and Notes

Short-term Debt

Certificate of Indebtedness – In July 2004, the Pooled Money Investment Board (PMIB) issued a \$450 million Certificate of Indebtedness per K.S.A. 75-3725a, subject to redemption not later than June 30, 2005. See Section III-I, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

Accrued Receivables for Ad Valorem Taxes – In July 2004, receivables were posted to the State Treasurer's receivables in the amount of \$14.7 million for the Kansas Educational Building Fund and \$7.4 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Section III-I, Short-term Obligations, for additional information.

Accrued Receivables for Children's Initiatives Fund – In July 2004, receivables were posted to the State Treasurer's receivables for the Children's Initiatives Fund in the amount of \$26.1 million per House Bill No. 2675, Section 88 (h), Session of 2004. See Section III-I, Short-term Obligations, for additional information.

Accrued Receivables for Correctional Institutions' Building Fund – In July 2004, receivables were posted to the State Treasurer's receivables for the Correctional Institutions' Building Fund in the amount of \$4.0 million per House Bill No. 2675, Section 88 (i), Session of 2004.

Long-term Debt

Notes – In October 2004, KDFA Bond Anticipation Note, Series 2004-1 was issued for the temporary funding of a capital improvement project for the Department of Labor in the amount of \$3,082,000. The note is for a term of 535 days, due April 1, 2006. The note interest rate is 3.10 percent.

Loans – In July 2004 a 914-day loan was issued to the Kansas Department of Wildlife and Parks for Tuttle Creek State Park Project in the amount of \$1,263,800. The interest rate is 1.199 percent. This loan becomes due on January 1, 2007.

Revenue Bonds – In July 2004, the KDFA issued Series 2004D for Pittsburg State University Housing System Renovation - Bonita Terrace Apartments in the amount of \$1,195,000. Interest rates on the bonds range from 3.0 to 4.75 percent, payable annually on October 1, beginning on October 1, 2007. The bonds mature on October 1, 2019.

Revenue Bonds – In July 2004 the KDFA issued Series 2004 F for the Kansas Board of Regents Comprehensive Rehabilitation and Repair Project in the amount of \$44,860,000. These bonds are refunding in advance of maturity revenue bonds, Series 1997G-I maturing in the years 2006 to 2011, inclusive, in the aggregate principal amount of \$16,435,000 and revenue bonds, Series 1997G-II maturing in the years 2008 to 2011, inclusive, in the aggregate principal amount of \$27,500,000. Interest rates on the bonds range from 2.0 to 4.987 percent, payable annually beginning on June 30, 2005. The bonds will mature on June 30, 2012.

Revenue Bonds – In August 2004, the KDFA issued Series 2004G-1 for the Department of Administration State Capital Restoration Project – Phase II for \$19,785,000. In addition, Series 2004G-2 for State of Kansas Pooled Refunding Revenue Bonds was issued in the amount of \$1,980,079.50. Interest rates on these bonds range from 2.5 to 5.125 percent, payable annually on April 1, beginning on April 1, 2005. The bonds mature on April 1, 2024.

Revenue Bonds – As continued financing of the Comprehensive Transportation Program, on November 23, 2004, the Department sold \$200,000 Highway Revenue Bonds, Series 2004B and \$147,000 Highway Revenue Bonds, Series 2004C.

State of Kansas
Notes to the Financial Statements
June 30, 2004

IV. Other Information

The Series 2004B Bonds are Auction Rate with maturities from 2021 through 2024 and the Series 2004C Bonds are variable rate demand obligations with maturities from 2021 through 2024.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Budgetary information

Annual budgets are adopted on a cash basis with encumbrance modifications for all governmental funds. Appropriations may be re-appropriated if the balance is greater than \$100, or lapsed at fiscal year end.

On or before October 1, agencies are required to submit annual or biennial budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the legislature on or before the 21st calendar day of that regular session.

The State maintains budgetary restrictions and controls, imposed through annual appropriations and limitations, approved by the Legislature. Agency, fund, and budget unit usually establish the level of budgetary control in the central accounting system. Budgetary control is maintained by mechanisms in the accounting system that prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved fund balances in the governmental financial statements in this report. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the budget unit level. The supplemental budgetary appropriations made in the General Fund were not material. Due to the volume of data, the detailed budget information at the budget unit level is not presented here.

State of Kansas
Required Supplementary Information
June 30, 2004

State of Kansas

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General Fund**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | <u>Budgeted Amounts</u> | | Actual Amounts Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|------------------------------------------------------------------------------------------------------|-------------------------|-------------------|-----------------------------------------|-----------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues and other financing sources: | | | | |
| Property tax | \$ 17,000 | \$ 34,100 | \$ 34,942 | \$ 842 |
| Income and inheritance tax | 2,151,000 | 2,037,000 | 2,103,103 | 66,103 |
| State sales tax | 1,640,000 | 1,620,000 | 1,612,067 | (7,933) |
| Consumer's and retailer's compensating use tax | 240,000 | 212,000 | 214,503 | 2,503 |
| Tobacco and liquor taxes | 215,500 | 191,000 | 190,004 | (996) |
| Severance taxes | 66,500 | 80,600 | 84,639 | 4,039 |
| Insurance premiums taxes | 85,000 | 100,000 | 106,864 | 6,864 |
| Other taxes | 33,500 | 40,500 | 41,295 | 795 |
| Operating grants | 0 | 0 | 45,710 | 45,710 |
| Investment earnings | 0 | 0 | 7,385 | 7,385 |
| Transfers | 11,267 | 19,900 | 23,042 | 3,142 |
| Charges for services, other revenues and financing sources | <u>65,900</u> | <u>115,200</u> | <u>55,344</u> | <u>(59,856)</u> |
| Total revenues and other financing sources | <u>4,525,667</u> | <u>4,450,300</u> | <u>4,518,898</u> | <u>68,598</u> |
| Expenditures and other financing uses: | | | | |
| Current: | | | | |
| General government | 173,406 | 174,029 | 166,208 | 7,821 |
| Human resources | 973,621 | 957,631 | 921,676 | 35,955 |
| Education | 3,044,134 | 2,873,472 | 2,872,023 | 1,449 |
| Public safety | 323,579 | 317,654 | 314,912 | 2,742 |
| Agriculture and natural resources | 15,596 | 15,599 | 15,529 | 70 |
| Health and environment | <u>26,313</u> | <u>26,113</u> | <u>26,103</u> | <u>10</u> |
| Total expenditures and other financing uses | <u>4,556,649</u> | <u>4,364,498</u> | <u>4,316,451</u> | <u>48,047</u> |
| Excess of revenues and other financing sources over (under) expenditures and other financing uses | <u>(30,982)</u> | <u>85,802</u> | <u>202,447</u> | <u>\$ 116,645</u> |
| Fund balances, beginning of year | 141,233 | 98,313 | 122,797 | |
| Adjustment for released encumbrances | <u>0</u> | <u>0</u> | <u>2,303</u> | |
| Fund balances, end of year | <u>\$ 110,251</u> | <u>\$ 184,115</u> | <u>\$ 327,547</u> | |

State of Kansas

**Reconciliation of the Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual with the Statement of
Revenues, Expenditures, and Changes in Fund Balances- Governmental
Funds for the State General Fund
For the Fiscal Year Ended June 30, 2004**

(expressed in thousands)

| | <u>State General Fund</u> |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Total net change in fund balance on budgetary schedule: | \$ 202,447 |
| Less encumbrances. The budgetary schedule includes current budget fiscal year encumbrances as expenditures. | (25,825) |
| Add prior budget fiscal year expenditures. The budgetary schedule includes only current budget year expenditures and encumbrances. | 16,060 |
| Less accrued expenditures/payables/non-expense items not reported in budgetary schedule: | |
| Payables | 94,032 |
| Transfers within primary govt and to component units | (672,614) |
| Add accrued revenues/receivables not reported on budgetary schedule: | |
| Property Taxes | 581,062 |
| Income and Inheritance Tax | 7,850 |
| State Sales Tax | <u>4,691</u> |
| Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance | <u><u>\$ 207,703</u></u> |

State of Kansas
Required Supplementary Information
June 30, 2004

State of Kansas

**Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual**

Social and Rehabilitation Services Fund

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|------------------------------------------------------------------------------------------------------|------------------|------------|-----------------------------------------|-----------------------------------------------------------|
| | Original | Final | | |
| Revenues and Other Financing Sources: | | | | |
| Tobacco & liquor taxes | \$ 2,118 | \$ 2,118 | \$ 2,202 | \$ 84 |
| Operating grants | 1,343,682 | 1,335,037 | 1,707,172 | 372,135 |
| Investment earnings | 0 | 0 | 170 | 170 |
| Transfers | 0 | 0 | (9,642) | (9,642) |
| Charges for services, other revenues & financing sources | 156,178 | 166,520 | 195,890 | 29,370 |
| Total revenues and other financing sources | 1,501,978 | 1,503,675 | 1,895,792 | 392,117 |
| Expenditures and Other Financing Uses: | | | | |
| Current: | | | | |
| Human resources | 986,838 | 1,002,721 | 1,898,276 | (895,555) |
| Total expenditures and other financing uses | 986,838 | 1,002,721 | 1,898,276 | (895,555) |
| Excess of revenues and other financing sources over (under) expenditures and other financing uses | \$ 515,140 | \$ 500,954 | \$ (2,484) | \$ (503,438) |

State of Kansas

**Reconciliation of the Schedule of Revenues, Expenditures, and
Changes in fund Balance - Budget to Actual
with the Statement of Revenues, Expenditures, and Changes in
Fund Balances- Governmental Funds
Social and Rehabilitation Services Fund
For the Fiscal Year Ended June 30, 2004**

(expressed in thousands)

| | Social and Rehabilitation Services Fund |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <hr/> | |
| Total net change in fund balance on budgetary schedule: | \$ (2,484) |
| Less encumbrances. The budgetary schedule includes current budget fiscal year encumbrances as expenditures. | (29,832) |
| Add prior budget fiscal year expenditures. The budgetary schedule includes only current budget year expenditures and encumbrances. | 14,704 |
| Less accrued expenditures/payables/non-expense items not reported in budgetary schedule: Payables | (192,899) |
| Add accrued revenues/receivables not reported on budgetary schedule: Net Receivables | <u>243,034</u> |
| Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance | <u><u>\$ 32,523</u></u> |

State of Kansas
Required Supplementary Information
June 30, 2004

Kansas Department of Transportation
Statement of Revenues, Expenditures and Other Financing Sources (Uses)
State Highway Fund (Agency's general fund)
Budget and Actual -- Budgetary Basis
For the Year Ended June 30, 2004
(amounts in thousands)

| | Budgeted Amounts | | Actual & Encum- brances | Variance with Final Budget Positive (Negative) |
|--------------------------------------------------------------------------------------|---------------------|---------------------|-------------------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Motor fuel taxes | \$ 296,221 | \$ 289,418 | \$ 278,988 | \$ (10,430) |
| Vehicle registrations and permits | 154,712 | 154,481 | 156,963 | 2,482 |
| Intergovernmental | 358,278 | 320,173 | 313,848 | (6,325) |
| Sales and use taxes | 91,584 | 90,693 | 90,276 | (417) |
| Investment earnings | 14,509 | 28,053 | 25,834 | (2,219) |
| Other | 4,899 | 5,157 | 12,370 | 7,213 |
| Transfers from other state funds | 3,461 | 3,448 | 4,279 | 831 |
| Total revenues | <u>923,664</u> | <u>891,423</u> | <u>882,558</u> | <u>(8,865)</u> |
| Expenditures, with legal limits: | | | | |
| Current operating: | | | | |
| Maintenance | 120,634 | 116,327 | 118,556 | (2,229) |
| Construction | 59,773 | 58,398 | 54,938 | 3,460 |
| Local support | 5,645 | 5,747 | 5,823 | (76) |
| Management | 54,312 | 53,405 | 49,455 | 3,950 |
| Capital improvements | 8,359 | 16,394 | 10,596 | 5,798 |
| Transfers to other state funds | 82,206 | 82,206 | 83,179 | (973) |
| Expenditures with legal limits | <u>330,929</u> | <u>332,477</u> | <u>322,547</u> | <u>9,930</u> |
| Expenditures, without legal limits: | | | | |
| Current operating: | | | | |
| Maintenance | 174,925 | 174,326 | 146,549 | 27,777 |
| Local support | 10,189 | 10,167 | 10,290 | (123) |
| Management | 475 | 400 | 1,130 | (730) |
| Capital improvements | 736,455 | 760,269 | 600,733 | 159,536 |
| Transfers to other state funds | 4,974 | 5,232 | 3,784 | 1,448 |
| Expenditures without legal limits | <u>927,018</u> | <u>950,394</u> | <u>762,486</u> | <u>187,908</u> |
| Total expenditures | <u>1,257,947</u> | <u>1,282,871</u> | <u>1,085,033</u> | <u>197,838</u> |
| Excess (deficiency) of revenues over expenditures | <u>(334,283)</u> | <u>(391,448)</u> | <u>(202,475)</u> | <u>188,973</u> |
| Other financing sources (uses): | | | | |
| Transfers-in | 0 | 257,837 | 257,968 | 131 |
| Transfers-out | (124,869) | (128,282) | (145,036) | (16,754) |
| Bond proceeds | 0 | 0 | | |
| Total other financing sources (uses) | <u>(124,869)</u> | <u>129,555</u> | <u>112,932</u> | <u>(16,623)</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other use | <u>\$ (459,153)</u> | <u>\$ (261,893)</u> | <u>\$ (89,543)</u> | <u>\$ 172,350</u> |

State of Kansas
Required Supplementary Information
June 30, 2004

Kansas Department of Transportation
Reconciliation of
Statement of Revenues, Expenditures and Other Financing Sources (Uses)
State Highway Fund (Agency's general fund)
Budget and Actual -- Budgetary Basis
to
Statement of Revenues, Expenditures, and Changes in Fund Balances
State Highway Fund (Agency's general fund)
For the Year Ended June 30, 2004
(amounts in thousands)

| | |
|----------------------------------------------------------------------------------------------------------------|---------------------------|
| Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis | \$ (89,543) |
| Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis | (9,654) |
| Current year encumbrances are reported as expenditures for budgetary reporting purposes | 596,482 |
| Expenditures on prior year encumbrances are not reported for budgetary reporting | (598,802) |
| Budgetary expenditures and transfers to other state funds have been adjusted for GAAP basis | <u>25,031</u> |
| Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances | <u><u>\$ (76,486)</u></u> |

Support of Modified Approach for Kansas Department of Transportation Infrastructure Reporting

Roadways

The highways in the State are made up of two systems: interstate highways and non-interstate highways. The condition of these systems is assessed annually using a pavement management system that measures the condition of the pavement surface to classify the roads into the following three performance levels:

PL-1 Roadway surface is in good condition and needs only routine or light preventative maintenance.

PL-2 Roadway surface needs at least routine maintenance.

PL-3 Roadway surface is in poor condition and needs significant work.

While the Department has goals to maintain these systems at higher levels, minimum acceptable condition levels have been defined as having at least 80 percent of the interstate miles in PL-1 and at least 75 percent of the non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior year.

| Fiscal Year | Interstate Miles | | Non-interstate Miles | |
|-------------|----------------------------------------------|-------------------------------|----------------------------------------------|-------------------------------|
| | Minimum Acceptable Condition Level* | Actual Condition Level* | Minimum Acceptable Condition Level* | Actual Condition Level* |
| | | | | |
| 2002 | 80% | 97% | 75% | 91% |
| 2003 | 80% | 97% | 75% | 93% |
| 2004 | 80% | 95% | 75% | 89% |

*Percent of miles in PL-1

The Department's goal is to continually improve the condition of the State highway system. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. To maintain the interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$110 million annually. To maintain the non-interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$260 million. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior year (expressed in thousands).

| Fiscal Year | Interstate Highways | | Non-interstate Highways | |
|-------------|------------------------------------------|--------------------|------------------------------------------|--------------------|
| | Minimum Acceptable Condition Level | Actual Expenses | Minimum Acceptable Condition Level | Actual Expenses |
| | | | | |
| 2002 | \$110,000 | \$149,554 | \$260,000 | \$289,685 |
| 2003 | \$110,000 | \$126,711 | \$260,000 | \$311,308 |
| 2004 | \$110,000 | \$155,711 | \$260,000 | \$348,849 |

Bridges

The condition of the bridge system in the state is assessed annually using the Pontis Bridge Management System. This system evaluates the condition of several elements (decks, girders, floor beams, columns etc) within each bridge using a rating scale of 1 to 5. These element ratings are weighted and aggregated to establish a health index of 0 to 100 for each bridge which, in turn, are aggregated to establish a health index for the entire system.

State of Kansas
Required Supplementary Information
June 30, 2004

The goal of the Department is to maintain the bridge system at a higher level, but has defined an overall statewide health index of 80 as the minimum acceptable condition level. This table compares the minimum acceptable health index with the actual health index for the current and prior year.

| <u>Fiscal Year</u> | <u>Minimum Acceptable Health Index</u> | <u>Actual Health Index</u> |
|--------------------|------------------------------------------------|--------------------------------|
| 2002 | 80 | 91 |
| 2003 | 80 | 92 |
| 2004 | 80 | 92 |

The Department's goal is to continually improve the condition of the State's bridge system. To achieve this goal it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable health index it is estimated that annual preservation and replacement expenditures must be approximately \$75 million annually. The following table compares the estimated annual expenditures need to maintain the bridges system with the actual expenditures for the current and prior year (expressed in thousands).

| <u>Fiscal Year</u> | <u>Minimum Acceptable Health Index</u> | <u>Actual Expenses</u> |
|--------------------|------------------------------------------------|------------------------|
| 2002 | \$75,000 | \$112,012 |
| 2003 | \$75,000 | \$ 87,015 |
| 2004 | \$75,000 | \$117,671 |

**OTHER
SUPPLEMENTARY
INFORMATION**

Listing of Non-Major Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes:

State Regulatory Boards and Commissions
Correctional Facilities
Tobacco Settlement for Children's Initiatives
Adjutant General
Aging
Agriculture
Attorney General
Administration
Health and Environment
Highway Patrol
Historical Society
Human Resources
Commerce
Insurance
Judicial
State Library
Revenue
Education
Secretary of State
State Treasurer
Wildlife and Parks
Executive
Legislative
Transportation- special revenue
State Water Plan

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds:

State Buildings (Appropriated)
Capitol Complex Buildings
Master Lease Program
Corrections
State Library
Pooled Funds
School District
Armories
KBI Buildings
Public Broadcasting Digital
Vital Statistics Project
Highway Patrol
Human Resources
Social and Rehabilitation Services

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principle and interest:

Bond and Interest
Highway Debt Service
STAR bond liability fund for GAAP purposes

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds
June 30, 2004
(expressed in thousands)

| | Special Revenue Funds | | | | | |
|-------------------------------------------|--------------------------------------------------|----------------------------|-------------------------------------------------------|---------------------|------------------|-----------------|
| | State Regulatory Boards and Commissions | Correctional Facilities | Tobacco Settlement for Children's Initiative | Adjutant General | Aging | Agriculture |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 40,414 | \$ 11,104 | \$ 6,780 | \$ 4,628 | \$ 7,186 | \$ 4,808 |
| Investments | (1) | 0 | 0 | 0 | 0 | 0 |
| Receivables, net | 0 | 0 | 0 | 0 | 51,248 | 0 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances to other funds | 41 | 5 | 0 | 0 | 0 | 4 |
| Restricted cash and cash equivalents | <u>9,766</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets | <u>\$ 50,220</u> | <u>\$ 11,109</u> | <u>\$ 6,780</u> | <u>\$ 4,628</u> | <u>\$ 58,434</u> | <u>\$ 4,812</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and other liabilities | \$ 7,847 | \$ 2,970 | \$ 1,250 | \$ 2,920 | \$ 53,923 | \$ 1,125 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances from other funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total liabilities | <u>7,847</u> | <u>2,970</u> | <u>1,250</u> | <u>2,920</u> | <u>53,923</u> | <u>1,125</u> |
| Fund balances: | | | | | | |
| Reserved for debt service | 9,766 | 0 | 0 | 0 | 0 | 0 |
| Reserved for encumbrances | 6,412 | 1,187 | 1,737 | 3,795 | 943 | 71 |
| Reserved for advances to other funds | 41 | 5 | 0 | 0 | 0 | 4 |
| Unreserved | <u>26,154</u> | <u>6,947</u> | <u>3,793</u> | <u>(2,087)</u> | <u>3,568</u> | <u>3,612</u> |
| Total fund balance | <u>42,373</u> | <u>8,139</u> | <u>5,530</u> | <u>1,708</u> | <u>4,511</u> | <u>3,687</u> |
| Total liabilities and fund balance | <u>\$ 50,220</u> | <u>\$ 11,109</u> | <u>\$ 6,780</u> | <u>\$ 4,628</u> | <u>\$ 58,434</u> | <u>\$ 4,812</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Special Revenue Funds | | | | | |
|-------------------------------------------|-----------------------|------------------|---------------------------|-------------------|-----------------------|--------------------|
| | Attorney General | Administration | Health and Environment | Highway Patrol | Historical Society | Human Resources |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 6,277 | \$ 11,136 | \$ 39,415 | \$ 12,808 | \$ 3,701 | \$ 8,932 |
| Investments | 0 | 55,389 | 0 | 0 | 0 | 0 |
| Receivables, net | 0 | 187 | 289 | 0 | 0 | 0 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances to other funds | 2 | 3 | 11,022 | 14 | 0 | 10 |
| Restricted cash and cash equivalents | <u>0</u> | <u>196</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total assets | <u>\$ 6,279</u> | <u>\$ 66,911</u> | <u>\$ 50,726</u> | <u>\$ 12,822</u> | <u>\$ 3,701</u> | <u>\$ 8,942</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and other liabilities | \$ 1,070 | \$ 1,544 | \$ 11,408 | \$ 1,983 | \$ 249 | \$ 5,033 |
| Due to other funds | 13 | 0 | 32 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 78 | 0 | 0 | 0 |
| Advances from other funds | <u>13</u> | <u>3</u> | <u>106</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total liabilities | <u>1,096</u> | <u>1,547</u> | <u>11,624</u> | <u>1,983</u> | <u>249</u> | <u>5,033</u> |
| Fund balances: | | | | | | |
| Reserved for debt service | 0 | 196 | 0 | 0 | 0 | 0 |
| Reserved for encumbrances | 1,007 | 819 | 28,723 | 2,725 | 187 | 2,077 |
| Reserved for advances to other funds | 2 | 3 | 11,022 | 14 | 0 | 10 |
| Unreserved | <u>4,174</u> | <u>64,346</u> | <u>(643)</u> | <u>8,100</u> | <u>3,265</u> | <u>1,822</u> |
| Total fund balance | <u>5,183</u> | <u>65,364</u> | <u>39,102</u> | <u>10,839</u> | <u>3,452</u> | <u>3,909</u> |
| Total liabilities and fund balance | <u>\$ 6,279</u> | <u>\$ 66,911</u> | <u>\$ 50,726</u> | <u>\$ 12,822</u> | <u>\$ 3,701</u> | <u>\$ 8,942</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Special Revenue Funds | | | | | |
|-------------------------------------------|-----------------------|------------------|-----------------|------------------|------------------|-----------------|
| | Commerce | Insurance | Judicial | State Library | Revenue | Education |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 36,072 | \$ 14,998 | \$ 9,198 | \$ 46 | \$ 13,811 | \$ 6,386 |
| Investments | 14,807 | 0 | 0 | 0 | 0 | 0 |
| Receivables, net | 17,501 | 0 | 0 | 0 | 22 | 0 |
| Due from other funds | 2,000 | 0 | 0 | 0 | 0 | 0 |
| Advances to other funds | 9 | 8 | 10 | 0 | 25 | 1 |
| Restricted cash and cash equivalents | 54 | 0 | 0 | 0 | 0 | 0 |
| Total assets | <u>\$ 70,443</u> | <u>\$ 15,006</u> | <u>\$ 9,208</u> | <u>\$ 46</u> | <u>\$ 13,858</u> | <u>\$ 6,387</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and other liabilities | \$ 2,888 | \$ 8,471 | \$ 1,179 | \$ 39 | \$ 3,074 | \$ 2,359 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 0 | 0 | 4 | 0 |
| Advances from other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | <u>2,888</u> | <u>8,471</u> | <u>1,179</u> | <u>39</u> | <u>3,078</u> | <u>2,359</u> |
| Fund balances: | | | | | | |
| Reserved for debt service | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserved for encumbrances | 14,807 | 784 | 17 | 0 | 2,710 | 2,112 |
| Reserved for advances to other funds | 9 | 8 | 10 | 0 | 25 | 1 |
| Unreserved | 52,739 | 5,743 | 8,002 | 7 | 8,045 | 1,915 |
| Total fund balance | <u>67,555</u> | <u>6,535</u> | <u>8,029</u> | <u>7</u> | <u>10,780</u> | <u>4,028</u> |
| Total liabilities and fund balance | <u>\$ 70,443</u> | <u>\$ 15,006</u> | <u>\$ 9,208</u> | <u>\$ 46</u> | <u>\$ 13,858</u> | <u>\$ 6,387</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Special Revenue Funds | | | | | | |
|-------------------------------------------|-----------------------|--------------------|-----------------------|-----------------|---------------|------------------------------------|---------------------|
| | Secretary of State | State Treasurer | Wildlife and Parks | Executive | Legislative | Transportation- special revenue | State Water Plan |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 14,980 | \$ 2,531 | \$ 26,481 | \$ 1,445 | \$ 180 | \$ 38,342 | \$ 11,286 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables, net | 0 | 0 | 0 | 0 | 0 | 3,443 | 3,733 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances to other funds | 1 | 42,646 | 19 | 0 | 0 | 0 | 1 |
| Restricted cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total assets | <u>\$ 14,981</u> | <u>\$ 45,177</u> | <u>\$ 26,500</u> | <u>\$ 1,445</u> | <u>\$ 180</u> | <u>\$ 41,785</u> | <u>\$ 15,020</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and other liabilities | \$ 213 | \$ 43,628 | \$ 7,410 | \$ 1,194 | \$ 0 | \$ 481 | \$ 1,818 |
| Due to other funds | 0 | 0 | 10 | 0 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 0 | 0 | 0 | 0 | 2,265 |
| Advances from other funds | 0 | 0 | 14 | 0 | 0 | 0 | 0 |
| Total liabilities | <u>213</u> | <u>43,628</u> | <u>7,434</u> | <u>1,194</u> | <u>0</u> | <u>481</u> | <u>4,083</u> |
| Fund balances: | | | | | | | |
| Reserved for debt service | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserved for encumbrances | 0 | 0 | 2,322 | 6 | 0 | 13,391 | 7,160 |
| Reserved for advances to other funds | 1 | 42,646 | 19 | 0 | 0 | 0 | 1 |
| Unreserved | 14,767 | (41,097) | 16,725 | 245 | 180 | 27,913 | 3,776 |
| Total fund balance | <u>14,768</u> | <u>1,549</u> | <u>19,066</u> | <u>251</u> | <u>180</u> | <u>41,304</u> | <u>10,937</u> |
| Total liabilities and fund balance | <u>\$ 14,981</u> | <u>\$ 45,177</u> | <u>\$ 26,500</u> | <u>\$ 1,445</u> | <u>\$ 180</u> | <u>\$ 41,785</u> | <u>\$ 15,020</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Capital Project Funds | | | | | | |
|-------------------------------------------|-----------------------------------|---------------------------------|-------------------------|-----------------|------------------|-----------------|--------------------|
| | State Buildings (Appropriated) | Capitol Complex Buildings | Master Lease Program | Corrections | State Library | Pooled Funds | School District |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 33,485 | \$ 3,238 | \$ 18,357 | \$ (120) | \$ 0 | \$ 0 | \$ 24 |
| Investments | 0 | 8,449 | 0 | 2,982 | 0 | 0 | 0 |
| Receivables, net | 0 | 121 | 55,784 | 84 | 0 | 0 | 0 |
| Due from other funds | 0 | 0 | 3,164 | 0 | 0 | 0 | 0 |
| Advances to other funds | 0 | 0 | 26,067 | 0 | 0 | 0 | 0 |
| Restricted cash and cash equivalents | 0 | 5,036 | 0 | 228 | 0 | 0 | 0 |
| Total assets | <u>\$ 33,485</u> | <u>\$ 16,844</u> | <u>\$ 103,372</u> | <u>\$ 3,174</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 24</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and other liabilities | \$ 3,679 | \$ 1,769 | \$ 563 | \$ 159 | \$ 0 | \$ 0 | \$ 0 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | <u>3,679</u> | <u>1,769</u> | <u>563</u> | <u>159</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Fund balances: | | | | | | | |
| Reserved for debt service | 0 | 4,828 | 0 | 104 | 0 | 0 | 0 |
| Reserved for encumbrances | 7,851 | 21,042 | 2,666 | 4,510 | 0 | 0 | 0 |
| Reserved for advances to other funds | 0 | 0 | 26,067 | 0 | 0 | 0 | 0 |
| Unreserved | 21,955 | (10,795) | 74,076 | (1,599) | 0 | 0 | 24 |
| Total fund balance | <u>29,806</u> | <u>15,075</u> | <u>102,809</u> | <u>3,015</u> | <u>0</u> | <u>0</u> | <u>24</u> |
| Total liabilities and fund balance | <u>\$ 33,485</u> | <u>\$ 16,844</u> | <u>\$ 103,372</u> | <u>\$ 3,174</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 24</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2004
(expressed in thousands)

| | Capital Project Funds | | | | | | |
|-------------------------------------------|-----------------------|------------------|-----------------------------------|--------------------------------|-------------------|--------------------|------------------------------------------|
| | Armories | KBI Buildings | Public Broadcasting Digital | Vital Statistics Project | Highway Patrol | Human Resources | Social and Rehabilitation Services |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 22,568 |
| Receivables, net | 0 | 0 | 0 | 0 | 0 | 0 | 181 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Restricted cash and cash equivalents | <u>12,213</u> | <u>0</u> | <u>2,200</u> | <u>2,111</u> | <u>0</u> | <u>715</u> | <u>32,009</u> |
| Total assets | <u>\$ 12,213</u> | <u>\$ 0</u> | <u>\$ 2,200</u> | <u>\$ 2,111</u> | <u>\$ 0</u> | <u>\$ 715</u> | <u>\$ 54,758</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and other liabilities | \$ 273 | \$ 0 | \$ 0 | \$ 1 | \$ 0 | \$ 15 | \$ 4,654 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Advances from other funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total liabilities | <u>273</u> | <u>0</u> | <u>0</u> | <u>1</u> | <u>0</u> | <u>15</u> | <u>4,654</u> |
| Fund balances: | | | | | | | |
| Reserved for debt service | 12,213 | 0 | 2,200 | 2,111 | 0 | 715 | 32,009 |
| Reserved for encumbrances | 246 | 0 | 0 | 1,992 | 0 | 147 | 35,578 |
| Reserved for advances to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unreserved | <u>(519)</u> | <u>0</u> | <u>0</u> | <u>(1,993)</u> | <u>0</u> | <u>(162)</u> | <u>(17,483)</u> |
| Total fund balance | <u>11,940</u> | <u>0</u> | <u>2,200</u> | <u>2,110</u> | <u>0</u> | <u>700</u> | <u>50,104</u> |
| Total liabilities and fund balance | <u>\$ 12,213</u> | <u>\$ 0</u> | <u>\$ 2,200</u> | <u>\$ 2,111</u> | <u>\$ 0</u> | <u>\$ 715</u> | <u>\$ 54,758</u> |

State of Kansas
Combining Balance Sheet - Governmental Funds - Concluded
June 30, 2004

(expressed in thousands)

| | Debt Service Funds | | | |
|-------------------------------------------|-------------------------|----------------------------|----------------------------------|--------------------------------|
| | Bond and Interest | Highway Debt Service | STAR Bonds Debt Service | Total Nonmajor Governmental |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 0 | \$ 0 | \$ 0 | \$ 387,929 |
| Investments | 322 | 0 | 0 | 104,516 |
| Receivables, net | 12 | 11,539 | 0 | 144,144 |
| Due from other funds | 0 | 0 | 0 | 5,164 |
| Advances to other funds | 0 | 0 | 0 | 79,888 |
| Restricted cash and cash equivalents | 268 | 48,427 | 38,462 | 151,685 |
| Total assets | \$ 602 | \$ 59,966 | \$ 38,462 | \$ 873,326 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and other liabilities | \$ 0 | \$ 100 | \$ 0 | \$ 175,289 |
| Due to other funds | 0 | 0 | 0 | 55 |
| Deferred revenue | 0 | 11,146 | 0 | 13,493 |
| Advances from other funds | 0 | 0 | 0 | 136 |
| Total liabilities | 0 | 11,246 | 0 | 188,973 |
| Fund balances: | | | | |
| Reserved for debt service | 268 | 48,162 | 0 | 112,572 |
| Reserved for encumbrances | 0 | 558 | 0 | 167,582 |
| Reserved for advances to other funds | 0 | 0 | 0 | 79,888 |
| Unreserved | 334 | 0 | 38,462 | 324,311 |
| Total fund balance | 602 | 48,720 | 38,462 | 684,353 |
| Total liabilities and fund balance | \$ 602 | \$ 59,966 | \$ 38,462 | \$ 873,326 |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Special Revenue Funds | | | | | |
|-----------------------------------------------------|-------------------------------------------------|----------------------------|-------------------------------------------------------|---------------------|------------------|-----------------|
| | State Regulatory Boards and Commission | Correctional Facilities | Tobacco Settlement for Children's Initiative | Adjutant General | Aging | Agriculture |
| Revenues: | | | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 2 | 0 | 0 | 0 | 0 | 0 |
| Gross receipts tax | 8,598 | 0 | 0 | 0 | 0 | 0 |
| Charges for services | 62,148 | 12,989 | 52,350 | 1 | 1,119 | 6,337 |
| Operating grants | 13,107 | 6,967 | 0 | 34,078 | 41,532 | 2,539 |
| Capital grants | 335 | 0 | 0 | 0 | 0 | 0 |
| Investment earnings | 106 | 35 | 183 | 0 | 0 | 24 |
| Other revenues | 5,294 | 5,102 | 0 | 81 | (49) | 396 |
| Total revenues | 89,590 | 25,093 | 52,533 | 34,160 | 42,602 | 9,296 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 41,136 | 0 | 0 | 0 | 0 | 0 |
| Human resources | 16,597 | 0 | 21,549 | 0 | 279,503 | 0 |
| Education | 549 | 0 | 8,154 | 0 | 0 | 0 |
| Public Safety | 4,810 | 31,005 | 8,851 | 35,301 | 0 | 0 |
| Agriculture and natural resources | 14,930 | 0 | 0 | 0 | 0 | 9,975 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and environment | 0 | 0 | 1,707 | 0 | 0 | 0 |
| Debt service: | | | | | | |
| Principal | 1,030 | 435 | 0 | 0 | 0 | 0 |
| Interest | 1,291 | 169 | 0 | 0 | 0 | 0 |
| Total expenditures | 80,343 | 31,609 | 40,261 | 35,301 | 279,503 | 9,975 |
| Excess of revenues over (under) expenditures | 9,247 | (6,516) | 12,272 | (1,141) | (236,901) | (679) |
| Other financing sources (uses): | | | | | | |
| Proceeds from sale of debt | 11,639 | 0 | 0 | 0 | 0 | 0 |
| Transfers, net | (17,617) | 4,831 | (11,321) | 1,703 | 236,841 | 233 |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | (5,978) | 4,831 | (11,321) | 1,703 | 236,841 | 233 |
| Net change in fund balances | 3,269 | (1,685) | 951 | 562 | (60) | (446) |
| Fund balances, beginning of year | 39,104 | 9,824 | 4,579 | 1,146 | 4,571 | 4,133 |
| Revisions to beginning fund balances | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | 39,104 | 9,824 | 4,579 | 1,146 | 4,571 | 4,133 |
| Fund balances, end of year | \$ 42,373 | \$ 8,139 | \$ 5,530 | \$ 1,708 | \$ 4,511 | \$ 3,687 |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas
**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Special Revenue Funds | | | | | |
|---------------------------------------------------------|-----------------------|------------------|---------------------------|-------------------|-----------------------|--------------------|
| | Attorney General | Administration | Health and Environment | Highway Patrol | Historical Society | Human Resources |
| Revenues: | | | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 0 | 0 | 716 | 3,262 | 1,140 | 0 |
| Gross receipts tax | 0 | 0 | 1,140 | 0 | 0 | 0 |
| Charges for services | 8,308 | 5,983 | 21,056 | 9,701 | 785 | 2,442 |
| Operating grants | 6,845 | 517 | 104,369 | 11,619 | 956 | 57,859 |
| Capital grants | 0 | 0 | 0 | 0 | 5 | 0 |
| Investment earnings | 8 | 8 | 221 | 40 | 31 | 7 |
| Other revenues | 1,068 | 22,167 | 33,270 | 587 | 401 | 10,921 |
| Total revenues | 16,229 | 28,675 | 160,772 | 25,209 | 3,318 | 71,229 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 8,414 | 469,428 | 0 | 0 | 0 | 0 |
| Human resources | 0 | 0 | 0 | 0 | 0 | 71,499 |
| Education | 0 | (16) | 0 | 0 | 3,283 | 0 |
| Public Safety | 9,892 | 0 | 0 | 34,518 | 0 | 0 |
| Agriculture and natural resources | 0 | 0 | 0 | 0 | 0 | 0 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and environment | 0 | 0 | 154,457 | 0 | 0 | 0 |
| Debt service: | | | | | | |
| Principal | 0 | 205 | 0 | 0 | 0 | 0 |
| Interest | 0 | 228 | (3) | 0 | 0 | 0 |
| Total expenditures | 18,306 | 469,845 | 154,454 | 34,518 | 3,283 | 71,499 |
| Excess of revenues over (under) expenditures | (2,077) | (441,170) | 6,318 | (9,309) | 35 | (270) |
| Other financing sources (uses): | | | | | | |
| Proceeds from sale of debt | 0 | 500,000 | 0 | 0 | 0 | 0 |
| Transfers, net | 2,736 | (1,556) | (2,628) | 11,178 | (14) | 1,629 |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | 2,736 | 498,444 | (2,628) | 11,178 | (14) | 1,629 |
| Net change in fund balances | 659 | 57,274 | 3,690 | 1,869 | 21 | 1,359 |
| Fund balances, beginning of year | 4,524 | 8,090 | 35,412 | 8,970 | 3,431 | 2,550 |
| Revisions to beginning fund balances | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | 4,524 | 8,090 | 35,412 | 8,970 | 3,431 | 2,550 |
| Fund balances, end of year | \$ 5,183 | \$ 65,364 | \$ 39,102 | \$ 10,839 | \$ 3,452 | \$ 3,909 |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Special Revenue Funds | | | | | |
|---------------------------------------------------------|-----------------------|-----------------|-----------------|------------------|------------------|-----------------|
| | Commerce | Insurance | Judicial | State Library | Revenue | Education |
| Revenues: | | | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 10,903 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 0 | 0 | 0 | 0 | 6,826 | 0 |
| Gross receipts tax | 0 | 9,515 | 0 | 0 | 215 | 0 |
| Charges for services | 2,478 | 8,069 | 12,633 | 23 | 11,802 | 3,014 |
| Operating grants | 27,023 | 60 | 98 | 1,558 | 44 | 351,935 |
| Capital grants | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment earnings | 337 | 0 | 19 | 0 | 0 | 1 |
| Other revenues | 1,190 | 2,277 | 1,742 | 1 | 0 | 41,619 |
| Total revenues | 41,931 | 19,921 | 14,492 | 1,582 | 18,887 | 396,569 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 62,442 | 16,778 | 14,902 | 0 | 53,075 | 0 |
| Human resources | 0 | 0 | 0 | 0 | 0 | 0 |
| Education | (876) | 0 | 0 | 1,480 | 0 | 395,293 |
| Public Safety | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture and natural resources | 0 | 0 | 0 | 0 | 0 | 0 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and environment | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service: | | | | | | |
| Principal | 8,565 | 2,000 | 0 | 0 | 0 | 0 |
| Interest | 3,206 | 0 | 0 | 0 | 0 | 0 |
| Total expenditures | 73,337 | 18,778 | 14,902 | 1,480 | 53,075 | 395,293 |
| Excess of revenues over (under) expenditures | (31,406) | 1,143 | (410) | 102 | (34,188) | 1,276 |
| Other financing sources (uses): | | | | | | |
| Proceeds from sale of debt | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers, net | 23,383 | (1,745) | 864 | (92) | 36,049 | (2,158) |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | 23,383 | (1,745) | 864 | (92) | 36,049 | (2,158) |
| Net change in fund balances | (8,023) | (602) | 454 | 10 | 1,861 | (882) |
| Fund balances, beginning of year | 55,533 | 7,137 | 7,575 | (3) | 8,919 | 4,910 |
| Revisions to beginning fund balances | 20,045 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | 75,578 | 7,137 | 7,575 | (3) | 8,919 | 4,910 |
| Fund balances, end of year | \$ 67,555 | \$ 6,535 | \$ 8,029 | \$ 7 | \$ 10,780 | \$ 4,028 |

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June 30, 2004

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Special Revenue Funds | | | | | | State Water Plan |
|---------------------------------------------------------|-----------------------|--------------------|-----------------------|----------------|---------------|------------------------------------|------------------------|
| | Secretary of State | State Treasurer | Wildlife and Parks | Executive | Legislative | Transportation- special revenue | |
| Revenues: | | | | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 0 | 0 | 846 | 0 | 0 | 0 | 0 |
| Gross receipts tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Charges for services | 3,988 | 2,597 | 25,346 | 1 | 70 | 174 | 3,923 |
| Operating grants | 7,662 | 0 | 11,779 | 14,186 | 85 | 0 | 0 |
| Capital grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment earnings | 51 | 2,091 | 136 | 0 | 0 | 0 | 0 |
| Other revenues | 208 | 7,074 | 104 | 30 | 60 | 628 | 5,028 |
| Total revenues | 11,909 | 11,762 | 38,211 | 14,217 | 215 | 802 | 8,951 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 2,796 | 11,162 | 0 | 10,971 | 110 | 0 | 0 |
| Human resources | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Education | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Safety | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture and natural resources | 0 | 0 | 38,798 | 0 | 0 | 0 | 10,281 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 9,859 | 0 |
| Health and environment | 0 | 0 | 0 | 0 | 0 | 0 | 3,745 |
| Debt service: | | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 0 | 0 | 222 |
| Interest | 0 | 0 | 0 | 0 | 0 | 0 | 15 |
| Total expenditures | 2,796 | 11,162 | 38,798 | 10,971 | 110 | 9,859 | 14,263 |
| Excess of revenues over (under) expenditures | 9,113 | 600 | (587) | 3,246 | 105 | (9,057) | (5,312) |
| Other financing sources (uses): | | | | | | | |
| Proceeds from sale of debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers, net | 87 | (297) | 1,815 | (3,079) | 0 | 37,000 | 5,867 |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | 87 | (297) | 1,815 | (3,079) | 0 | 37,000 | 5,867 |
| Net change in fund balances | 9,200 | 303 | 1,228 | 167 | 105 | 27,943 | 555 |
| Fund balances, beginning of year | 5,568 | (37,528) | 17,838 | 84 | 75 | 13,361 | 10,382 |
| Revisions to beginning fund balances | 0 | 38,774 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | 5,568 | 1,246 | 17,838 | 84 | 75 | 13,361 | 10,382 |
| Fund balances, end of year | \$ 14,768 | \$ 1,549 | \$ 19,066 | \$ 251 | \$ 180 | \$ 41,304 | \$ 10,937 |

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June 30, 2004

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Capital Project Funds | | | | | | |
|---------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------|-----------------|------------------|-----------------|--------------------|
| | State Buildings (Appropriated) | Capitol Complex Buildings | Master Lease Program | Corrections | State Library | Pooled Funds | School District |
| Revenues: | | | | | | | |
| Property tax | \$ 38,056 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross receipts tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Charges for services | 1 | 472 | 1 | 261 | 0 | 0 | 0 |
| Operating grants | 0 | 0 | 0 | 0 | 84 | 0 | 0 |
| Capital grants | 0 | 0 | 873 | 0 | 0 | 0 | 0 |
| Investment earnings | 0 | 172 | 221 | 12 | 0 | 0 | 0 |
| Other revenues | 0 | 0 | 16 | 0 | 0 | 0 | 0 |
| Total revenues | 38,057 | 644 | 1,111 | 273 | 84 | 0 | 0 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 0 | 26,630 | 118 | 0 | 0 | 0 | 0 |
| Human resources | 5,261 | 0 | 0 | 0 | 0 | 0 | 0 |
| Education | (15,595) | 0 | 0 | 0 | 84 | 0 | 49,858 |
| Public Safety | 4,629 | 0 | 0 | 5,450 | 0 | 0 | 0 |
| Agriculture and natural resources | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and environment | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt service: | | | | | | | |
| Principal | 0 | 2,285 | 7,308 | 10,725 | 0 | 95 | 0 |
| Interest | 0 | 4,009 | 2,700 | 4,901 | 0 | 29 | 0 |
| Total expenditures | (5,705) | 32,924 | 10,126 | 21,076 | 84 | 124 | 49,858 |
| Excess of revenues over (under) expenditures | 43,762 | (32,280) | (9,015) | (20,803) | 0 | (124) | (49,858) |
| Other financing sources (uses): | | | | | | | |
| Proceeds from sale of debt | 0 | 0 | 19,062 | 0 | 0 | 0 | 0 |
| Transfers, net | (45,380) | 3,585 | 0 | 15,037 | 0 | 124 | 49,882 |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | (45,380) | 3,585 | 19,062 | 15,037 | 0 | 124 | 49,882 |
| Net change in fund balances | (1,618) | (28,695) | 10,047 | (5,766) | 0 | 0 | 24 |
| Fund balances, beginning of year | 31,424 | 43,770 | 92,762 | 8,781 | 0 | 0 | 0 |
| Revisions to beginning fund balances | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | 31,424 | 43,770 | 92,762 | 8,781 | 0 | 0 | 0 |
| Fund balances, end of year | \$ 29,806 | \$ 15,075 | \$ 102,809 | \$ 3,015 | \$ 0 | \$ 0 | \$ 24 |

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State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Capital Project Funds | | | | | | |
|---------------------------------------------------------|-----------------------|------------------|-----------------------------------|--------------------------------|-------------------|--------------------|------------------------------------------|
| | Armories | KBI Buildings | Public Broadcasting Digital | Vital Statistics Project | Highway Patrol | Human Resources | Social and Rehabilitation Services |
| Revenues: | | | | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Income and inheritance tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales excise tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross receipts tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Charges for services | 1 | 0 | 0 | 0 | 0 | 2 | 557 |
| Operating grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment earnings | 79 | 0 | 27 | 27 | 1 | 12 | 85 |
| Other revenues | 0 | 0 | 0 | 2 | 0 | 0 | 0 |
| Total revenues | <u>80</u> | <u>0</u> | <u>27</u> | <u>29</u> | <u>1</u> | <u>14</u> | <u>642</u> |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 0 | 0 | 328 | 0 | 0 | 0 | 0 |
| Human resources | 0 | 0 | 0 | 0 | 0 | 858 | 27,545 |
| Education | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Safety | 1,025 | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture and natural resources | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Highways and other transportation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and environment | 0 | 0 | 0 | 747 | 0 | 0 | 0 |
| Debt service: | | | | | | | |
| Principal | 6,215 | 0 | 205 | 395 | 630 | 200 | 765 |
| Interest | 287 | 0 | 274 | 106 | 344 | 213 | 3,143 |
| Total expenditures | <u>7,527</u> | <u>0</u> | <u>807</u> | <u>1,248</u> | <u>974</u> | <u>1,271</u> | <u>31,453</u> |
| Excess of revenues over (under) expenditures | <u>(7,447)</u> | <u>0</u> | <u>(780)</u> | <u>(1,219)</u> | <u>(973)</u> | <u>(1,257)</u> | <u>(30,811)</u> |
| Other financing sources (uses): | | | | | | | |
| Proceeds from sale of debt | 12,521 | 0 | 0 | 0 | 0 | 0 | 35,421 |
| Transfers, net | 374 | 0 | 447 | 470 | 963 | 396 | 2,734 |
| Other financing sources (uses) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources (uses) | <u>12,895</u> | <u>0</u> | <u>447</u> | <u>470</u> | <u>963</u> | <u>396</u> | <u>38,155</u> |
| Net change in fund balances | <u>5,448</u> | <u>0</u> | <u>(333)</u> | <u>(749)</u> | <u>(10)</u> | <u>(861)</u> | <u>7,344</u> |
| Fund balances, beginning of year | 6,492 | 0 | 2,533 | 2,859 | 10 | 1,561 | 42,760 |
| Revisions to beginning fund balances | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund balances, beginning of year (restated) | <u>6,492</u> | <u>0</u> | <u>2,533</u> | <u>2,859</u> | <u>10</u> | <u>1,561</u> | <u>42,760</u> |
| Fund balances, end of year | <u>\$ 11,940</u> | <u>\$ 0</u> | <u>\$ 2,200</u> | <u>\$ 2,110</u> | <u>\$ 0</u> | <u>\$ 700</u> | <u>\$ 50,104</u> |

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June 30, 2004

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Concluded**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Debt Service Funds | | | |
|---------------------------------------------------------|--------------------|------------------|------------------|-------------------|
| | Bond and | Highway | STAR Bonds | Total Nonmajor |
| | Interest | Debt | Debt Service | Governmental |
| | | Service | | |
| Revenues: | | | | |
| Property tax | \$ 0 | \$ 0 | \$ 0 | \$ 38,056 |
| Income and inheritance tax | 0 | 0 | 0 | 10,903 |
| Sales excise tax | 0 | 0 | 15,125 | 27,917 |
| Gross receipts tax | 0 | 0 | 0 | 19,468 |
| Charges for services | (52) | 374 | (1) | 258,953 |
| Operating grants | 0 | 0 | 0 | 694,902 |
| Capital grants | 0 | 0 | 0 | 1,213 |
| Investment earnings | 9 | 0 | 0 | 3,943 |
| Other revenues | 0 | 0 | 0 | 139,217 |
| Total revenues | <u>(43)</u> | <u>374</u> | <u>15,124</u> | <u>1,194,572</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 39,447 | 0 | 26,266 | 784,003 |
| Human resources | 0 | 0 | 0 | 422,812 |
| Education | 0 | 0 | 0 | 442,214 |
| Public Safety | 519 | 0 | 0 | 136,000 |
| Agriculture and natural resources | 0 | 0 | 0 | 73,984 |
| Highways and other transportation | 0 | 0 | 0 | 9,859 |
| Health and environment | 0 | 0 | 0 | 160,656 |
| Debt service: | | | | |
| Principal | 2,090 | 28,350 | 1,728 | 73,448 |
| Interest | 1,291 | 53,530 | 6,856 | 82,589 |
| Total expenditures | <u>43,347</u> | <u>81,880</u> | <u>34,850</u> | <u>2,185,565</u> |
| Excess of revenues over (under) expenditures | <u>(43,390)</u> | <u>(81,506)</u> | <u>(19,726)</u> | <u>(990,993)</u> |
| Other financing sources (uses): | | | | |
| Proceeds from sale of debt | 40,769 | 0 | 26,266 | 645,678 |
| Transfers, net | 2,579 | 111,771 | 0 | 466,691 |
| Other financing sources (uses) | 0 | (28,745) | 0 | (28,745) |
| Total other financing sources (uses) | <u>43,348</u> | <u>83,026</u> | <u>26,266</u> | <u>1,083,624</u> |
| Net change in fund balances | <u>(42)</u> | <u>1,520</u> | <u>6,540</u> | <u>92,631</u> |
| Fund balances, beginning of year | 644 | 47,200 | 2,402 | 503,383 |
| Revisions to beginning fund balances | 0 | 0 | 29,520 | 88,339 |
| Fund balances, beginning of year (restated) | <u>644</u> | <u>47,200</u> | <u>31,922</u> | <u>591,722</u> |
| Fund balances, end of year | <u>\$ 602</u> | <u>\$ 48,720</u> | <u>\$ 38,462</u> | <u>\$ 684,353</u> |

Listing of Non-Major Proprietary Funds

Enterprise Funds

Enterprise funds may be used to report any activity for which a fee for goods or services is charged external users. Enterprise funds are (1) required for any activity that operates under laws or regulations that its costs be recovered with fees and charges, rather than with taxes or similar revenues, (2) required for any activity for which management establishes fees, pursuant to its pricing policy, designed to recover its costs of providing services, and (3) required for activity that is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity:

Workers' Compensation

Lottery

Intergovernmental Transfer Program

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State of Kansas

Combining Statement of Net Assets - Nonmajor Proprietary Funds

June 30, 2004

(expressed in thousands)

| | Business-Type Activities | | | |
|--------------------------------------------------|--------------------------|------------------|---------------------------------------|------------------|
| | Workers Compensation | Lottery | Intergovernmental Transfer Program | Totals |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 6,152 | \$ 9,322 | \$ 1,279 | \$ 16,753 |
| Investments | 0 | 0 | 0 | 0 |
| Receivables,net | 0 | 7,347 | 0 | 7,347 |
| Due from other funds | 0 | 0 | 0 | 0 |
| Inventories | 0 | 1,867 | 0 | 1,867 |
| Other assets | 0 | 0 | 0 | 0 |
| Total current assets | <u>6,152</u> | <u>18,536</u> | <u>1,279</u> | <u>25,967</u> |
| Noncurrent assets: | | | | |
| Investments | 0 | 0 | 0 | 0 |
| Receivables,net: | 0 | 0 | 0 | 0 |
| Restricted cash and cash equivalents | 0 | 0 | 0 | 0 |
| Restricted investments | 0 | 0 | 0 | 0 |
| Advances to other funds | 4,000 | 0 | 0 | 4,000 |
| Capital assets (net of accumulated depreciation) | 0 | 470 | 0 | 470 |
| Infrastructure | 0 | 0 | 0 | 0 |
| Other noncurrent assets | 0 | 0 | 0 | 0 |
| Total noncurrent assets | <u>4,000</u> | <u>470</u> | <u>0</u> | <u>4,470</u> |
| Total assets | <u>\$ 10,152</u> | <u>\$ 19,006</u> | <u>\$ 1,279</u> | <u>\$ 30,437</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and other liabilities | \$ 234 | \$ 5,829 | \$ 10 | \$ 6,073 |
| Deferred revenue | 0 | 0 | 0 | 0 |
| Due to other funds | 0 | 5,500 | 0 | 5,500 |
| Short-term compensated absences | 9 | 0 | 0 | 9 |
| Short-term portion of long-term liabilities | 5,084 | 0 | 0 | 5,084 |
| Total current liabilities | <u>5,327</u> | <u>11,329</u> | <u>10</u> | <u>16,666</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences | 1 | 0 | 0 | 1 |
| Claims and judgements | 26,205 | 0 | 0 | 26,205 |
| Total noncurrent liabilities | <u>26,206</u> | <u>0</u> | <u>0</u> | <u>26,206</u> |
| Total liabilities | <u>31,533</u> | <u>11,329</u> | <u>10</u> | <u>42,872</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 0 | 470 | 0 | 470 |
| Restricted for: | | | | 0 |
| Other purposes | (134,104) | 0 | 0 | (134,104) |
| Unrestricted | 112,723 | 7,207 | 1,269 | 121,199 |
| Total net assets | <u>(21,381)</u> | <u>7,677</u> | <u>1,269</u> | <u>(12,435)</u> |
| Total liabilities and net assets | <u>\$ 10,152</u> | <u>\$ 19,006</u> | <u>\$ 1,279</u> | <u>\$ 30,437</u> |

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State of Kansas

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Nonmajor Proprietary Funds**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Business-Type Activities | | | Totals |
|---------------------------------------------------|--------------------------|-----------------|-----------------------------------------------|--------------------|
| | Workers Compensation | Lottery | Intergovern- mental Transfer Program | |
| Operating revenues: | | | | |
| Charges for services | \$ 3,859 | \$ 225,457 | \$ 191 | \$ 229,507 |
| Other revenue | 114 | 327 | 17 | 458 |
| Total operating revenues | <u>3,973</u> | <u>225,784</u> | <u>208</u> | <u>229,965</u> |
| Operating expenses: | | | | |
| Personal services | 237 | 3,836 | 0 | 4,073 |
| Supplies and services | 1,163 | 29,940 | 17 | 31,120 |
| Lottery prize awards | 0 | 120,776 | 0 | 120,776 |
| Depreciation | 0 | 226 | 0 | 226 |
| Insurance claims and expenses | 684 | 0 | 0 | 684 |
| Other expenses | 758 | 0 | 38 | 796 |
| Total operating expenses | <u>2,842</u> | <u>154,778</u> | <u>55</u> | <u>157,675</u> |
| Operating income (loss) | <u>1,131</u> | <u>71,006</u> | <u>153</u> | <u>72,290</u> |
| Nonoperating revenues (expenses): | | | | |
| Other expenses | 0 | 0 | (1,155) | (1,155) |
| Total nonoperating revenues (expenses) | <u>0</u> | <u>0</u> | <u>(1,155)</u> | <u>(1,155)</u> |
| Net income (loss) | <u>1,131</u> | <u>71,006</u> | <u>(1,002)</u> | <u>71,135</u> |
| Transfers in | (77) | (70,218) | 7 | (70,288) |
| Transfers out | (18) | 0 | 0 | (18) |
| Net change in net assets | <u>1,036</u> | <u>788</u> | <u>(995)</u> | <u>829</u> |
| Total net assets - beginning | (134,104) | 6,889 | 2,264 | (124,951) |
| Revisions to beginning net assets | 111,687 | 0 | 0 | 111,687 |
| Total net assets - beginning (restated) | <u>(22,417)</u> | <u>6,889</u> | <u>2,264</u> | <u>(13,264)</u> |
| Total net assets - ending | <u>\$ (21,381)</u> | <u>\$ 7,677</u> | <u>\$ 1,269</u> | <u>\$ (12,435)</u> |

Internal Service Funds

Internal Service Funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis:

Printing
Accounting Services
Motor Pool
Information Technology
Aircraft
Building Maintenance
Architectural Services
Central Mail
State Workers' Compensation
Capital Security
Larned Motor Pool
Osawatomie Motor Pool
Wildlife Aircraft
Personnel Services

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Combining Statement of Net Assets - Internal Service Funds

June 30, 2004

(expressed in thousands)

| | Printing | Accounting Services | Motor Pool | Information Technology | Aircraft | Building Maintenance |
|--------------------------------------------------|-----------------|------------------------|-----------------|---------------------------|--------------|-------------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 3,115 | \$ 3,586 | \$ 6,008 | \$ 6,191 | \$ 51 | \$ 4,807 |
| Inventories | 0 | 0 | 0 | 507 | 0 | 0 |
| Total current assets | <u>3,115</u> | <u>3,586</u> | <u>6,008</u> | <u>6,698</u> | <u>51</u> | <u>4,807</u> |
| Noncurrent assets: | | | | | | |
| Advances to other funds | 4 | 4 | 1 | 11 | 0 | 7 |
| Capital assets (net of accumulated depreciation) | <u>1,667</u> | <u>7</u> | <u>1,861</u> | <u>10,431</u> | <u>0</u> | <u>81,364</u> |
| Total noncurrent assets | <u>1,671</u> | <u>11</u> | <u>1,862</u> | <u>10,442</u> | <u>0</u> | <u>81,371</u> |
| Total assets | <u>\$ 4,786</u> | <u>\$ 3,597</u> | <u>\$ 7,870</u> | <u>\$ 17,140</u> | <u>\$ 51</u> | <u>\$ 86,178</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and other liabilities | \$ 553 | \$ 332 | \$ 123 | \$ 3,710 | \$ 5 | \$ 1,126 |
| Due to other funds | 0 | 0 | 0 | 674 | 2 | 605 |
| Short-term compensated absences | 126 | 210 | 5 | 378 | 0 | 127 |
| Short-term portion of long-term liabilities | <u>172</u> | <u>25,042</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,488</u> |
| Total current liabilities | <u>851</u> | <u>25,584</u> | <u>128</u> | <u>4,762</u> | <u>7</u> | <u>3,346</u> |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 16 | 26 | 1 | 47 | 0 | 16 |
| Claims and judgements | 0 | 218 | 0 | 0 | 0 | 0 |
| Bonds, notes and loans payable | 1,075 | 0 | 0 | 0 | 0 | 66,295 |
| Advances from other funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,227</u> | <u>3</u> | <u>4,400</u> |
| Total noncurrent liabilities | <u>1,091</u> | <u>244</u> | <u>1</u> | <u>1,274</u> | <u>3</u> | <u>70,711</u> |
| Total liabilities | <u>1,942</u> | <u>25,828</u> | <u>129</u> | <u>6,036</u> | <u>10</u> | <u>74,057</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 353 | 10 | 11,164 | 11,324 | 0 | 15,052 |
| Unrestricted | <u>2,491</u> | <u>(22,241)</u> | <u>(3,423)</u> | <u>(220)</u> | <u>41</u> | <u>(2,931)</u> |
| Total net assets | <u>2,844</u> | <u>(22,231)</u> | <u>7,741</u> | <u>11,104</u> | <u>41</u> | <u>12,121</u> |
| Total liabilities and net assets | <u>\$ 4,786</u> | <u>\$ 3,597</u> | <u>\$ 7,870</u> | <u>\$ 17,140</u> | <u>\$ 51</u> | <u>\$ 86,178</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

Combining Statement of Net Assets - Internal Service Funds - Concluded

June 30, 2004

(expressed in thousands)

| | Architectural Services | State Workers Compensation | Capitol Security | Osawatomie Motor Pool | Wildlife Aircraft | Personnel Services | Totals |
|--------------------------------------------------|---------------------------|-------------------------------|---------------------|--------------------------|----------------------|-----------------------|-------------------|
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 90 | \$ 9,857 | \$ 187 | \$ 16 | \$ 46 | \$ 61 | \$ 34,015 |
| Inventories | 0 | 0 | 0 | 0 | 0 | 0 | 507 |
| Total current assets | 90 | 9,857 | 187 | 16 | 46 | 61 | 34,522 |
| Noncurrent assets: | | | | | | | |
| Advances to other funds | 1 | 1 | 0 | 0 | 0 | 0 | 29 |
| Capital assets (net of accumulated depreciation) | 15 | 0 | 0 | 0 | 0 | 0 | 95,345 |
| Total noncurrent assets | 16 | 1 | 0 | 0 | 0 | 0 | 95,374 |
| Total assets | \$ 106 | \$ 9,858 | \$ 187 | \$ 16 | \$ 46 | \$ 61 | \$ 129,896 |
| LIABILITIES | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and other liabilities | \$ 80 | \$ 677 | \$ 107 | \$ 3 | \$ 0 | \$ 8 | \$ 6,724 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 1,281 |
| Short-term compensated absences | 0 | 0 | 40 | 0 | 0 | 4 | 890 |
| Short-term portion of long-term liabilities | 0 | 4,539 | 0 | 0 | 0 | 0 | 31,241 |
| Total current liabilities | 80 | 5,216 | 147 | 3 | 0 | 12 | 40,136 |
| Noncurrent liabilities: | | | | | | | |
| Compensated absences | 0 | 0 | 5 | 0 | 0 | 1 | 112 |
| Claims and judgements | 0 | 19,596 | 0 | 0 | 0 | 0 | 19,814 |
| Bonds, notes and loans payable | 0 | 0 | 0 | 0 | 0 | 0 | 67,370 |
| Advances from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 5,630 |
| Total noncurrent liabilities | 0 | 19,596 | 5 | 0 | 0 | 1 | 92,926 |
| Total liabilities | 80 | 24,812 | 152 | 3 | 0 | 13 | 133,062 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | 22 | 0 | 0 | 0 | 0 | 0 | 37,925 |
| Unrestricted | 4 | (14,954) | 35 | 13 | 46 | 48 | (41,091) |
| Total net assets | 26 | (14,954) | 35 | 13 | 46 | 48 | (3,166) |
| Total liabilities and net assets | \$ 106 | \$ 9,858 | \$ 187 | \$ 16 | \$ 46 | \$ 61 | \$ 129,896 |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

Combining Statement of Revenues, Expenses, and Changes in

Fund Net Assets - Internal Service Funds

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | <u>Printing</u> | <u>Accounting Services</u> | <u>Motor Pool</u> | <u>Information Technology</u> | <u>Aircraft</u> | <u>Building Maintenance</u> |
|-----------------------------------------------|-----------------|--------------------------------|-------------------|-----------------------------------|-----------------|---------------------------------|
| Operating revenues: | | | | | | |
| Charges for services | \$ 6,189 | \$ 3,392 | \$ 4,091 | \$ 33,191 | \$ 172 | \$ 20,989 |
| Other revenue | 9 | (4,450) | 1,439 | 2 | 2 | 146 |
| Total operating revenues | <u>6,198</u> | <u>(1,058)</u> | <u>5,530</u> | <u>33,193</u> | <u>174</u> | <u>21,135</u> |
| Operating expenses: | | | | | | |
| Salaries and wages | 2,863 | 3,869 | 449 | 8,546 | 0 | 4,514 |
| Supplies and services | 2,827 | 607 | 1,499 | 21,950 | 137 | 8,247 |
| Depreciation | 141 | 3 | 4,155 | 2,687 | 0 | 2,804 |
| Insurance claims and expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Other expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total operating expenses | <u>5,831</u> | <u>4,479</u> | <u>6,103</u> | <u>33,183</u> | <u>137</u> | <u>15,565</u> |
| Operating income (loss) | <u>367</u> | <u>(5,537)</u> | <u>(573)</u> | <u>10</u> | <u>37</u> | <u>5,570</u> |
| Nonoperating revenues (expenses): | | | | | | |
| Interest expense | 15 | 0 | 0 | 0 | 0 | 3,403 |
| Other expenses | 0 | 0 | 0 | 243 | 0 | 0 |
| Total nonoperating revenues (expenses) | <u>(15)</u> | <u>0</u> | <u>0</u> | <u>(243)</u> | <u>0</u> | <u>(3,403)</u> |
| Net income (loss) | 352 | (5,537) | (573) | (233) | 37 | 2,167 |
| Transfers in | (16) | 1,206 | (6,835) | (36) | 0 | 972 |
| Transfers out | <u>(132)</u> | <u>0</u> | <u>(58)</u> | <u>(349)</u> | <u>0</u> | <u>(1,657)</u> |
| Net change in net assets | 204 | (4,331) | (7,466) | (618) | 37 | 1,482 |
| Total net assets - beginning | <u>2,640</u> | <u>(17,900)</u> | <u>15,207</u> | <u>11,722</u> | <u>4</u> | <u>10,639</u> |
| Total net assets - ending | <u>\$ 2,844</u> | <u>\$ (22,231)</u> | <u>\$ 7,741</u> | <u>\$ 11,104</u> | <u>\$ 41</u> | <u>\$ 12,121</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Internal Service Funds - Concluded**

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Architectural Services | State Workers Compensation | Capitol Security | Osawatomie Motor Pool | Wildlife Aircraft | Personnel Services | Totals |
|-----------------------------------------------|---------------------------|-------------------------------|---------------------|--------------------------|----------------------|-----------------------|-------------------|
| Operating revenues: | | | | | | | |
| Charges for services | \$ 852 | \$ 15,953 | \$ 0 | \$ 20 | \$ 48 | \$ 151 | \$ 85,048 |
| Other revenue | 48 | (1,588) | 1,208 | 0 | 1 | 0 | (3,183) |
| Total operating revenues | <u>900</u> | <u>14,365</u> | <u>1,208</u> | <u>20</u> | <u>49</u> | <u>151</u> | <u>81,865</u> |
| Operating expenses: | | | | | | | |
| Salaries and wages | 909 | 1,108 | 1,339 | 0 | 0 | 108 | 23,705 |
| Supplies and services | 217 | 1,180 | 61 | 7 | 60 | 19 | 36,811 |
| Depreciation | 6 | 0 | 0 | 0 | 0 | 0 | 9,796 |
| Insurance claims and expenses | 0 | 15,300 | 0 | 0 | 0 | 0 | 15,300 |
| Other expenses | 50 | 0 | 0 | 0 | 0 | 0 | 50 |
| Total operating expenses | <u>1,182</u> | <u>17,588</u> | <u>1,400</u> | <u>7</u> | <u>60</u> | <u>127</u> | <u>85,662</u> |
| Operating income (loss) | <u>(282)</u> | <u>(3,223)</u> | <u>(192)</u> | <u>13</u> | <u>(11)</u> | <u>24</u> | <u>(3,797)</u> |
| Nonoperating revenues (expenses): | | | | | | | |
| Interest expense | 0 | 0 | 0 | 0 | 0 | 0 | 3,418 |
| Other expenses | 0 | 3 | 0 | 0 | 0 | 0 | 246 |
| Total nonoperating revenues (expenses) | <u>0</u> | <u>(3)</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(3,664)</u> |
| Net income (loss) | <u>(282)</u> | <u>(3,226)</u> | <u>(192)</u> | <u>13</u> | <u>(11)</u> | <u>24</u> | <u>(7,461)</u> |
| Transfers in | 45 | (6) | (7) | 0 | 0 | (1) | (4,678) |
| Transfers out | 0 | (52) | 0 | 0 | 0 | 0 | (2,248) |
| Net change in net assets | <u>(237)</u> | <u>(3,284)</u> | <u>(199)</u> | <u>13</u> | <u>(11)</u> | <u>23</u> | <u>(14,387)</u> |
| Total net assets - beginning | 263 | (11,670) | 234 | 0 | 57 | 25 | 11,221 |
| Total net assets - ending | <u>\$ 26</u> | <u>\$ (14,954)</u> | <u>\$ 35</u> | <u>\$ 13</u> | <u>\$ 46</u> | <u>\$ 48</u> | <u>\$ (3,166)</u> |

Listing of Component Units

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable:

Kansas Development Finance Authority
Kansas Technology Enterprise Corporation
Kansas Housing Resources Corporation
State University System

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

Combining Statement of Net Assets - Component Units

June 30, 2004

(expressed in thousands)

| | Kansas Development Finance Authority | Kansas Technology Enterprise Corporation | Kansas Housing Resources Corporation | State University System | Totals |
|--------------------------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 632 | \$ 3,307 | \$ 0 | \$ 403,100 | \$ 407,039 |
| Investments | 3,016 | 6,817 | 4,221 | 127,840 | 141,894 |
| Receivables, net | 92 | 1,481 | 3,237 | 201,622 | 206,432 |
| Due from primary government | 18,860 | 0 | 0 | 0 | 18,860 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 |
| Inventories | 0 | 0 | 0 | 12,660 | 12,660 |
| Other assets | 78 | 29 | 0 | 8,333 | 8,440 |
| Total current assets | <u>22,678</u> | <u>11,634</u> | <u>7,458</u> | <u>753,555</u> | <u>795,325</u> |
| Noncurrent assets: | | | | | |
| Investments | 0 | 0 | 0 | 1,414,189 | 1,414,189 |
| Receivables, net: | 32 | 1,393 | 0 | 64,191 | 65,616 |
| Restricted cash and cash equivalents | 0 | 0 | 154 | 25,986 | 26,140 |
| Restricted investments | 1,870 | 0 | 155 | 25,540 | 27,565 |
| Advances to other funds | 0 | 0 | 0 | 0 | 0 |
| Due from primary government | 268,805 | 0 | 0 | 0 | 268,805 |
| Capital assets (net of accumulated depreciation) | 108 | 104 | 221 | 1,260,757 | 1,261,190 |
| Other noncurrent assets | 0 | 0 | 0 | 19,574 | 19,574 |
| Total noncurrent assets | <u>270,815</u> | <u>1,497</u> | <u>530</u> | <u>2,810,237</u> | <u>3,083,079</u> |
| Total assets | <u>\$ 293,493</u> | <u>\$ 13,131</u> | <u>\$ 7,988</u> | <u>\$ 3,563,792</u> | <u>\$ 3,878,404</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and other liabilities | \$ 103 | \$ 1,507 | \$ 269 | \$ 318,875 | \$ 320,754 |
| Deferred revenue | 1,870 | 197 | 6 | 66,946 | 69,019 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 |
| Short-term compensated absences | 0 | 0 | 66 | 39,898 | 39,964 |
| Short-term portion of long-term liabilities | 18,860 | 0 | 0 | 27,365 | 46,225 |
| Total current liabilities | <u>20,833</u> | <u>1,704</u> | <u>341</u> | <u>453,084</u> | <u>475,962</u> |
| Noncurrent liabilities: | | | | | |
| Compensated absences | 0 | 0 | 0 | 4,924 | 4,924 |
| Bonds, notes and loans payable | 268,805 | 0 | 0 | 386,711 | 655,516 |
| Other noncurrent liabilities | 0 | 0 | 0 | 17,129 | 17,129 |
| Total noncurrent liabilities | <u>268,805</u> | <u>0</u> | <u>0</u> | <u>408,764</u> | <u>677,569</u> |
| Total liabilities | <u>289,638</u> | <u>1,704</u> | <u>341</u> | <u>861,848</u> | <u>1,153,531</u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 108 | 104 | 221 | 977,511 | 977,944 |
| Restricted for: | | | | | |
| Capital projects | 0 | 0 | 0 | 95,344 | 95,344 |
| Debt service | 0 | 0 | 0 | 40,990 | 40,990 |
| Other purposes | 0 | 261 | 156 | 1,496,351 | 1,496,768 |
| Unrestricted | 3,747 | 11,062 | 7,270 | 91,748 | 113,827 |
| Total net assets | <u>\$ 3,855</u> | <u>\$ 11,427</u> | <u>\$ 7,647</u> | <u>\$ 2,701,944</u> | <u>\$ 2,724,873</u> |

State of Kansas
Other Supplementary Information
June 30, 2004

State of Kansas

Combining Statement of Activities-Component Units

For the Fiscal Year Ended June 30, 2004

(expressed in thousands)

| | Kansas Development Finance Authority | Kansas Technology Enterprise Corporation | Kansas Housing Resources Corporation | State University System | Totals |
|-----------------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------|---------------------|
| Operating expenses: | | | | | |
| Salaries and Wages | \$ 766 | \$ 844 | \$ 1,968 | \$ 1,120,922 | \$ 1,124,500 |
| Supplies and services | 298 | 5,119 | 55,729 | 340,169 | 401,315 |
| Depreciation | 52 | 154 | 102 | 73,069 | 73,377 |
| Interest expense | 0 | 0 | 0 | 15,994 | 15,994 |
| Other expenses | 106 | 8,305 | 2,419 | 555,988 | 566,818 |
| Total operating expenses | <u>1,222</u> | <u>14,422</u> | <u>60,218</u> | <u>2,106,142</u> | <u>2,182,004</u> |
| Program Revenues: | | | | | |
| Charges for services | 1,452 | 1,410 | 3,396 | 920,351 | 926,609 |
| Operating grants | 0 | 13,245 | 1,070 | 302,929 | 317,244 |
| Capital grants | 0 | 0 | 0 | 2,881 | 2,881 |
| Total program revenues | <u>1,452</u> | <u>14,655</u> | <u>4,466</u> | <u>1,226,161</u> | <u>1,246,734</u> |
| Net (Expense) Revenue | <u>230</u> | <u>233</u> | <u>(55,752)</u> | <u>(879,981)</u> | <u>(935,270)</u> |
| General Revenue: | | | | | |
| Taxes: | | | | | |
| Sales and excise tax | 0 | 0 | 0 | 2 | 2 |
| Gross receipts tax | 0 | 0 | 0 | 419 | 419 |
| Investment earnings | 66 | (97) | 105 | 210,508 | 210,582 |
| Other revenue | 5 | 829 | 55,647 | 967,073 | 1,023,554 |
| Transfers | 0 | 0 | 0 | 1 | 1 |
| Total general revenues | <u>71</u> | <u>732</u> | <u>55,752</u> | <u>1,178,003</u> | <u>1,234,558</u> |
| Change in net assets | <u>301</u> | <u>965</u> | <u>0</u> | <u>298,022</u> | <u>299,288</u> |
| Total net assets - beginning | 3,554 | 10,286 | 0 | 0 | 13,840 |
| Revisions to beginning net assets | 0 | 176 | 7,647 | 2,403,922 | 2,411,745 |
| Total net assets - beginning (restated) | <u>3,554</u> | <u>10,462</u> | <u>7,647</u> | <u>2,403,922</u> | <u>2,425,585</u> |
| Total net assets - ending | <u>\$ 3,855</u> | <u>\$ 11,427</u> | <u>\$ 7,647</u> | <u>\$ 2,701,944</u> | <u>\$ 2,724,873</u> |

**STATISTICAL
SECTION**

Government Wide Expenses by Function Last Three Fiscal Years

| (expressed in thousands) | | | |
|------------------------------------|---------------|---------------|---------------|
| | Fiscal Year | | |
| | 2004 | 2003 | 2002 |
| General government | \$ 896,421 | \$ 419,040 | \$ 561,006 |
| Human resources | 3,210,798 | 2,804,932 | 2,723,207 |
| Education | 3,206,751 | 3,125,520 | 2,662,380 |
| Public safety | 457,005 | 446,867 | 476,638 |
| Agriculture and natural resources | 90,536 | 92,466 | 90,948 |
| Highways and other transportation | 777,697 | 798,083 | 860,035 |
| Health and environment | 175,721 | 174,249 | 166,038 |
| Water pollution and safety | 28,975 | 22,489 | 42,370 |
| Health care stabilization | 31,450 | 34,955 | 27,588 |
| Employment security | 468,413 | 487,610 | 341,587 |
| Workers' compensation | 2,637 | (38,177) | (856) |
| Lottery | 154,778 | 140,103 | 132,284 |
| Universities | 1,701,201 | 1,749,824 | 1,857,220 |
| Intergovernmental transfer program | 1,210 | 35,953 | 94,823 |
| Total | \$ 11,203,593 | \$ 10,293,914 | \$ 10,035,268 |

Government Wide Revenues Last Three Fiscal Years

| (expressed in thousands) | | | |
|--------------------------|---------------|---------------|--------------|
| | Fiscal Year | | |
| | 2004 | 2003 | 2002 |
| <i>Program revenues</i> | | | |
| Charges for services | \$ 1,706,335 | \$ 1,612,912 | \$ 1,299,132 |
| Operating grants | 2,856,496 | 2,958,426 | 2,905,795 |
| Capital grants | 238,304 | 299,433 | 260,285 |
| <i>General revenues</i> | | | |
| Taxes | 5,681,545 | 4,995,553 | 4,417,669 |
| Investment earnings | 20,963 | 12,786 | 37,211 |
| Other revenue | 338,668 | 355,491 | 791,169 |
| Extraordinary items | 0 | 45,710 | 0 |
| Total | \$ 10,842,311 | \$ 10,280,311 | \$ 9,711,261 |

General Governmental Expenditures by Function Last Three Fiscal Years

| (expressed in thousands) | | | |
|-----------------------------------|--------------|--------------|--------------|
| | Fiscal Year | | |
| | 2004 | 2003 | 2002 |
| General government | \$ 883,666 | \$ 542,359 | \$ 582,613 |
| Human resources | 3,207,830 | 2,805,640 | 2,727,508 |
| Education | 3,206,817 | 3,128,229* | 2,664,448 |
| Public safety | 451,511 | 467,663 | 482,523 |
| Agriculture and natural resources | 89,161 | 91,034 | 91,302 |
| Highways and other transportation | 1,018,471 | 898,645 | 920,930 |
| Health and environment | 175,653 | 175,636 | 166,504 |
| Debt service | 145,979 | 174,377 | 157,372 |
| Total | \$ 9,179,088 | \$ 8,283,583 | \$ 7,793,200 |

General Governmental Revenues by Source Last Three Fiscal Years

| (expressed in thousands) | | | |
|------------------------------|--------------|--------------|--------------|
| | Fiscal Year | | |
| | 2004 | 2003 | 2002 |
| Property tax | \$ 654,048 | \$ 446,629 | \$ 54,694 |
| Income and inheritance taxes | 2,229,224 | 1,953,397 | 2,010,129 |
| Sales excise tax | 2,710,879 | 2,473,761 | 2,224,123 |
| Gross receipts tax | 128,164 | 115,194 | 103,822 |
| Charges for services | 547,002 | 531,949 | 449,109 |
| Operating grants | 2,459,329 | 2,433,074 | 2,397,729 |
| Capital grants | 208,454 | 297,260 | 259,666 |
| Investment earnings | 20,963 | 13,636 | 37,442 |
| Other revenues | 277,892 | 161,081 | 177,028 |
| Total | \$ 9,235,955 | \$ 8,425,981 | \$ 7,713,742 |

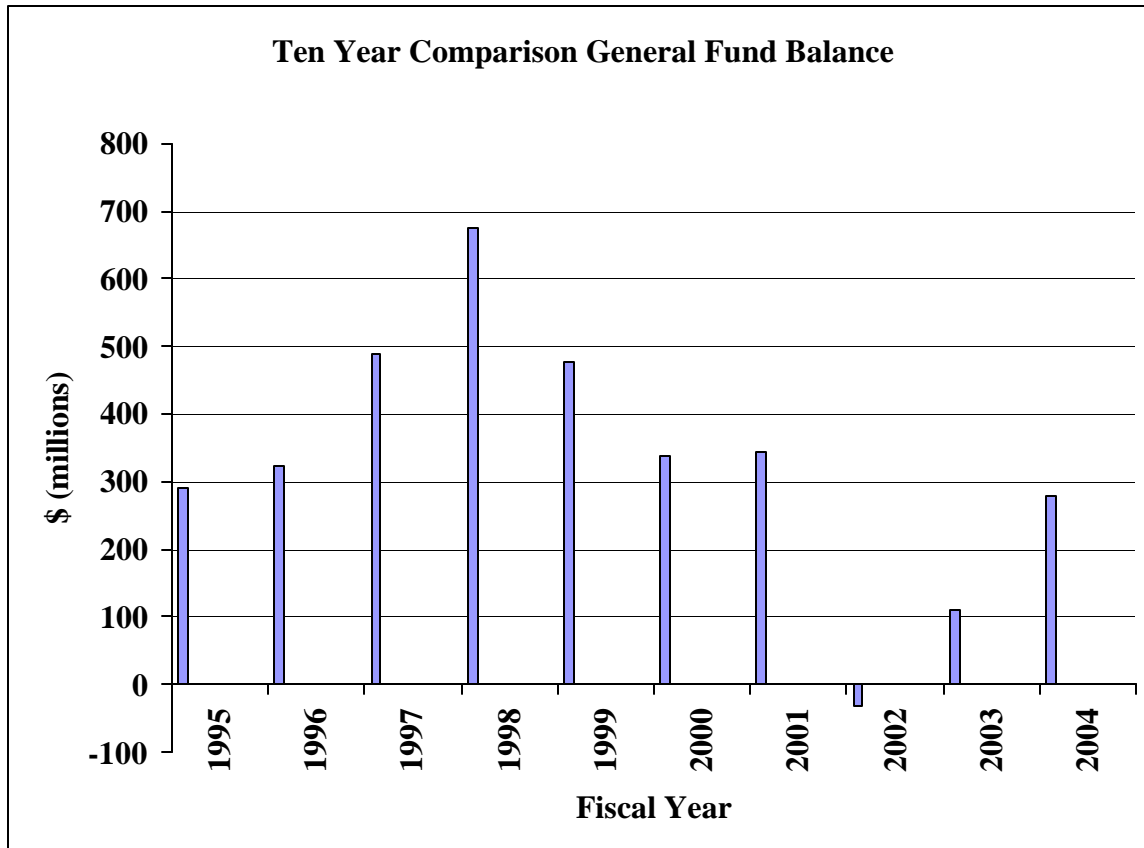
*In fiscal year 2003 the State began recording the property taxes and their payments to the Unified School Districts.

Comparison of Resources Available for Appropriations

(expressed in thousands)

RESOURCES AVAILABLE FOR APPROPRIATIONS

| | 2004 | 2003 | Increase/ (Decrease) |
|-----------------------------------------------------------------------------|-------------------|-------------------|---------------------------------|
| State Treasurer's Balance at June 30 | \$ 367,693 | \$ 159,788 | \$ 207,905 |
| Less Outstanding Obligations | | | |
| Unredeemed warrants and vouchers payable | 12,153 | 16,081 | (3,928) |
| Unliquidated encumbrances | 28,261 | 20,911 | 7,350 |
| Appropriation balances reappropriated..... | 49,115 | 12,300 | 36,815 |
| Total outstanding obligations at June 30 | 89,529 | 49,292 | 40,237 |
| UNENCUMBERED BALANCE AVAILABLE TO FINANCE SUCCEEDING FISCAL YEAR | | | |
| APPROPRIATIONS AT JUNE 30 | \$ 278,164 | \$ 110,496 | \$ 167,668 |



State of Kansas
Statistical Section
June 30, 2004

State General Fund Cash Revenues Last Ten Fiscal Years

(expressed in thousands)

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|--------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Tax revenues | | | | | |
| Property | \$ 34,757 | \$ 15,729 | \$ 18,068 | \$ 17,920 | \$ 16,125 |
| Income and inheritance | 2,103,103 | 1,933,348 | 1,999,571 | 2,255,261 | 2,190,032 |
| Sales and compensating use | 1,826,570 | 1,793,645 | 1,704,675 | 1,673,857 | 1,635,365 |
| Cigarette | 119,789 | 129,250 | 48,040 | 48,784 | 49,124 |
| Cereal malt beverage | 2,165 | 2,273 | 2,380 | 2,489 | 2,431 |
| Liquor enforcement | 40,256 | 38,833 | 37,423 | 35,351 | 33,336 |
| Liquor gallonage and private club | 22,997 | 21,649 | 21,247 | 20,728 | 20,033 |
| Tobacco products | 4,797 | 4,510 | 4,302 | 4,092 | 3,773 |
| Corporation franchise | 36,806 | 31,091 | 18,519 | 16,927 | 16,834 |
| Wheat | 0 | 0 | 0 | 0 | 53 |
| Car companies | 740 | 758 | 856 | 887 | 866 |
| Insurance companies | 106,864 | 94,455 | 84,950 | 67,680 | 60,675 |
| Bingo tax | 434 | 450 | 454 | 519 | 303 |
| Transient guest tax | 422 | 376 | 376 | 367 | 341 |
| Severance tax on minerals | 84,639 | 72,775 | 55,681 | 101,537 | 52,969 |
| Marijuana and controlled substances | 177 | 213 | 258 | 325 | 367 |
| Other gross receipts | 2,614 | 2,630 | 11 | 14 | 18 |
| Total tax revenues | 4,387,130 | 4,141,985 | 3,996,811 | 4,246,738 | 4,082,645 |
| Non-tax revenues | | | | | |
| Agency earnings: | | | | | |
| Service charges | 6,475 | 8,079 | 7,701 | 8,012 | 8,104 |
| Licenses, permits and registrations | 4,427 | 4,772 | 5,098 | 5,081 | 4,975 |
| Sales of commodities | 400 | 641 | 647 | 913 | 342 |
| Grain and pecan marketing assessments | 0 | 0 | 0 | 0 | 47 |
| Total agency earnings | 11,302 | 13,492 | 13,446 | 14,006 | 13,468 |
| Revenue from the use of money and property | | | | | |
| Interest and dividends | 7,385 | 20,057 | 23,403 | 71,765 | 76,696 |
| Amortization on securities | 71 | 137 | 53 | 54 | (4) |
| Total revenue from the use of money and property | 7,456 | 20,194 | 23,456 | 71,819 | 76,692 |
| Gifts, donations & grants | 0 | 82 | 0 | 0 | 0 |
| Extraordinary income | 45,710 | 45,710 | 0 | 0 | 0 |
| Reimbursements and refunds | 6,568 | 2,461 | 2,271 | 2,188 | 1,944 |
| Other non-tax revenues | 34,696 | 21,655 | 34,549 | 25,322 | 29,222 |
| Total non-tax revenues | 105,732 | 103,594 | 73,722 | 113,335 | 121,326 |
| Total revenues | \$ 4,492,862 | \$ 4,245,579 | \$ 4,070,533 | \$ 4,360,073 | \$ 4,203,971 |

State of Kansas
Statistical Section
June 30, 2004

**State General Fund Cash Revenues
Last Ten Fiscal Years – (Continued)**

| | (expressed in thousands) | | | | |
|--------------------------------------------------|--------------------------|---------------------|---------------------|---------------------|---------------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Tax revenues | | | | | |
| Property | \$ 15,771 | \$ 15,998 | \$ 15,683 | \$ 14,008 | \$ 11,722 |
| Income and inheritance | 2,029,226 | 2,136,849 | 1,892,874 | 1,744,285 | 1,563,495 |
| Sales and compensating use | 1,598,542 | 1,536,679 | 1,400,602 | 1,329,586 | 1,308,748 |
| Cigarette | 51,181 | 52,095 | 52,931 | 52,359 | 52,272 |
| Cereal malt beverage | 2,448 | 2,439 | 2,460 | 2,533 | 2,694 |
| Liquor enforcement | 30,797 | 28,549 | 27,446 | 26,204 | 24,789 |
| Liquor gallonage and private club | 19,284 | 18,388 | 17,731 | 17,251 | 17,153 |
| Tobacco products | 3,369 | 3,269 | 3,103 | 2,925 | 2,680 |
| Corporation franchise | 15,866 | 15,351 | 14,293 | 13,140 | 12,025 |
| Wheat | 51 | 36 | 41 | 48 | 51 |
| Car companies | 881 | 873 | 900 | 866 | 872 |
| Insurance companies | 67,293 | 88,106 | 80,413 | 88,947 | 88,417 |
| Bingo tax | 326 | 319 | 352 | 351 | 359 |
| Transient guest tax | 338 | 287 | 257 | 245 | 230 |
| Severance tax on minerals | 40,932 | 62,558 | 75,713 | 63,581 | 71,737 |
| Marijuana and controlled substances | 400 | 256 | 323 | 238 | 190 |
| Other gross receipts | 15 | 20 | 25 | 24 | 28 |
| Total tax revenues | 3,876,720 | 3,962,072 | 3,585,147 | 3,356,591 | 3,157,462 |
| Non-tax revenues | | | | | |
| Agency earnings: | | | | | |
| Service charges | 8,571 | 8,820 | 8,297 | 8,115 | 7,825 |
| Licenses, permits and registrations | 5,130 | 5,486 | 5,411 | 5,545 | 5,247 |
| Sales of commodities | 391 | 748 | 554 | 732 | 818 |
| Grain and pecan marketing assessments | 49 | 64 | 59 | 52 | 49 |
| Total agency earnings | 14,141 | 15,118 | 14,321 | 14,444 | 13,939 |
| Revenue from the use of money and property | | | | | |
| Interest and dividends | 88,084 | 85,504 | 81,697 | 75,137 | 76,830 |
| Amortization on securities | (61) | (906) | (14,125) | (10,916) | (13,749) |
| Total revenue from the use of money and property | 88,023 | 84,598 | 67,572 | 64,221 | 63,081 |
| Gifts, donations & grants | 5 | 0 | 0 | 1 | 0 |
| Extraordinary income | 0 | 0 | 0 | 0 | 0 |
| Reimbursements and refunds | 1,628 | 1,729 | 1,448 | 1,503 | 1,289 |
| Other non-tax revenues | 24,506 | 26,739 | 22,992 | 25,922 | 25,737 |
| Total non-tax revenues | 128,303 | 128,184 | 106,333 | 106,091 | 104,046 |
| Total revenues | \$ 4,005,023 | \$ 4,090,256 | \$ 3,691,480 | \$ 3,462,682 | \$ 3,261,508 |

State of Kansas
Statistical Section
June 30, 2004

| |
|----------------------------------------------------------------------|
| Kansas Demographic Statistics Last Ten Fiscal Years |
|----------------------------------------------------------------------|

| Fiscal Year | Population⁽¹⁾ | Per Capita Income⁽²⁾ | Median Age⁽³⁾ | Education Level in Years of Formal Schooling⁽⁴⁾ | K to 12 Public School Enrollment⁽⁴⁾ | Unemployment Rate⁽⁵⁾ |
|--------------------|---------------------------------|----------------------------------------|---------------------------------|-------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------|
| 1995 | 2,587,000 | 21,771 | 34.40 | - | 439,686 | 4.4% |
| 1996 | 2,598,000 | 22,977 | 34.75 | - | 466,368 | 4.5% |
| 1997 | 2,616,000 | 24,182 | 35.00 | - | 467,691 | 3.8% |
| 1998 | 2,639,000 | 25,519 | 35.25 | - | 469,758 | 3.8% |
| 1999 | 2,654,000 | 26,134 | 35.50 | - | 469,205 | 3.0% |
| 2000 | 2,688,000 | 27,439 | 35.25 | 13.28 | 468,347 | 3.7% |
| 2001 | 2,694,641 | 28,432 | 35.25 | - | 468,171 | 4.3% |
| 2002 | 2,715,884 | 29,141 | 35.40 | - | 468,173 | 5.1% |
| 2003 | 2,723,507 | 29,545 | (6) | - | 467,326 | 5.4% |
| 2004 | (6) | (6) | (6) | - | 484,262 | 4.8% |

Data Sources:

- ⁽¹⁾ U.S. Bureau of the Census Web Site: <http://www.census.gov>.
- ⁽²⁾ State Department of Commerce Web Site:
<http://www.kdoch.state.ks.us>.
- ⁽³⁾ State Department of Health and Environment Web Site: <http://www.kdhe.state.ks.us>.
- ⁽⁴⁾ State Department of Education Web Site: <http://www.ksde.org>. The Source for education level in years of formal schooling came from 1990 and 2000 census reports issued by the U.S. Census Bureau. The school enrollment represents the head count as of September 20 of each year.
- ⁽⁵⁾ State Department of Labor, Kansas Labor Market Information Services Web Site:
<http://laborstats.hr.state.ks.us>. The 2003 estimated rate was revised in March, 2004.
- ⁽⁶⁾ Information is not available at this time.

State of Kansas
Statistical Section
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Major Employers in Kansas

| Company Name | City | Employees | Line of Business |
|--------------------------------------------------------|-----------------|-----------|---------------------------------------------------------------------------------------------------------------------|
| The Boeing Company | Wichita | 16,000 | Aircraft manufacturing |
| The Cessna Aircraft Company | Wichita | 10,200 | Aircraft manufacturing and headquarters |
| Raytheon Aircraft Company | Wichita | 9,000 | Aircraft manufacturing and headquarters |
| Goodyear Tire & Rubber Company | Topeka | 7,000 | Tire and inner tubes manufacturing |
| University of Kansas Medical Center | Kansas City | 6,000 | General medical and surgical hospital |
| Sprint Communications Company LP | Shawnee Mission | 5,000 | Telephone communications except radiotelephone |
| Royal Caribbean Cruises LTD | Wichita | 4,900 | Travel agency |
| Leopoldstadt Inc. | Shawnee Mission | 4,300 | Help supply services |
| Via Christi Regional Medical Center | Wichita | 4,000 | General medical and surgical hospital |
| Learjet Inc. | Wichita | 4,000 | Aircraft manufacturing |
| United Parcel Service, Inc. | Shawnee Mission | 4,000 | Courier service except by air |
| Wesley Medical Center LLC | Wichita | 3080 | General medical and surgical hospital |
| Tyson Fresh Meats Inc. | Holcomb | 3,000 | Meat packing plant |
| University of Kansas Hospital Authority | Kansas City | 2,750 | Management services |
| Koch Industries Inc. | Wichita | 2,000 | Oil, chemical technology and other products |
| Stormont-Vail Regional Medical Center | Topeka | 2,000 | General medical and surgical hospital |
| Shawnee Mission Medical Center Inc. | Shawnee Mission | 1,783 | General medical and surgical hospital |
| Sisters of Charity of Leavenworth Health Systems, Inc. | Topeka | 1,724 | General medical and surgical hospital |
| United States Postal Service | Salina | 1,555 | Transportation parcel delivery and logistics |
| Honeywell International Inc. | Olathe | 1,500 | Electronics and aviation instruments |
| St. Francis Hospital and Medical Center | Topeka | 1,500 | General medical and surgical hospital |
| LabOne, Inc. | Shawnee Mission | 1,450 | Medical laboratories |
| Advance Stores Company Incorporated | Shawnee Mission | 1,350 | Tire dealer |
| Case, LLC | Hesston | 1,300 | Farm machinery and equipment manufacturing |
| Deffenbaugh Industries Inc. | Shawnee Mission | 1,200 | Landfill and disposal operation |
| Community Health Group | Shawnee Mission | 1,200 | General medical and surgical hospital |
| J C Penney Corporation Inc. | Shawnee Mission | 1,200 | General warehousing and storage |
| York International Corporation | Wichita | 1,200 | Air Conditioning and warm air heating equipment and commercial and industrial refrigeration equipment manufacturing |

Source: Dun & Bradstreet Corporation, 2003/2004 D & B Regional Business Directory.

KANSAS FACTS

General Information

| | |
|-----------------------------------------------------------------|-----------|
| Admitted to Union (34 th State)..... | 1861 |
| Capital..... | Topeka |
| Population per U.S. Census, estimate, 2003..... | 2,723,507 |
| Population per square mile per U.S. Census, estimate, 2003..... | 33.29 |
| Counties..... | 105 |

State Symbols

| | |
|----------------|-------------------------------------------------------|
| Nickname..... | Sunflower State |
| Motto..... | Ad Astra per Aspera (To the stars through difficulty) |
| Song..... | Home on the Range |
| Flower..... | Native Sunflower |
| Tree..... | Cottonwood |
| Bird..... | Western Meadowlark |
| Animal..... | American Buffalo |
| Fish..... | Channel Catfish |
| Insect..... | Honeybee |
| Reptile..... | Ornate Box Turtle |
| Soil..... | Harney Silt Loam |
| Amphibian..... | Barred Tiger Salamander |

Area

| | |
|-----------------|---------------------|
| Total Area..... | 82,282 square miles |
| Land Area..... | 81,823 square miles |
| Water Area..... | 459 square miles |

Recreation

| | |
|--------------------------------------------|----|
| Number of State Parks..... | 25 |
| Number of State Trails..... | 11 |
| Number of Lakes (100 acres or larger)..... | 43 |



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Legislative Post Audit Committee
Kansas State Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 29, 2004. We did not audit the financial statements of the various component units of the six state universities which represent 48 percent and 31 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities aggregate discretely presented component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as Finding 2004-01.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct of material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State of Kansas Legislative Post Audit committee, management, Federal awarding agencies and past-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Allen, Gibbs & Houlik, L.L.C.

December 29, 2004
Wichita, Kansas

Berberich Trahan & Co., P.A.

December 29, 2004
Topeka, Kansas

**State of Kansas
Schedule of Findings
6/30/2004**

Finding 2004-01
Preparation of Financial Statements

Criteria:

The process used in the preparation of the audited financial statements should include internal controls over the summarization of financial data that would detect material misstatements in the financial statements.

Condition:

The current accounting system utilized by the State was designed to provide information primarily related to budget compliance. Consequently, the system is designed to record cash transactions and unliquidated encumbrances and generally omits noncash assets and liabilities. As a result, management must convert cash basis information to both modified accrual and full accrual information for the annual financial report. Management has developed and documented the policies, procedures and methodology for the required conversions which is accomplished through a complex data base.

We noted a number of errors in the preliminary draft financial statements.

Cause:

Preliminary draft financial statements were not thoroughly reviewed by personnel with the required technical knowledge of GAAP reporting. Additionally, financial statement amounts were not reconciled to the appropriate collaborating data at the time the preliminary statements were given to the auditors.

Effect:

No known material effect on the financial statements. However, the propriety of underlying account balances may be questioned.

Recommendation:

The financial statements should be thoroughly reviewed by personnel with the required technical knowledge of GAAP reporting. Amounts in the draft financial statements should be reconciled to the supporting data.

MANAGEMENT RESPONSE TO SCHEDULE OF FINDINGS

Response to Audit Finding 2004-01

This is the third consecutive year (FYs 2002, 2003, 2004) that the State of Kansas, Division of Accounts and Reports (A&R) has prepared a Generally Accepted Accounting Principles (GAAP) compliant Comprehensive Annual Financial Report (CAFR) using the new reporting model required by Statement 34 of the Governmental Accounting Standards Board (GASB). Prior to this, the State's financial statements were prepared on a cash basis. Thus, the State "went GAAP" and began using the new reporting model in the same year (FY 2002). During this short period of time the Financial Integrity Team (FIT), who prepares the report, has experienced repeated and significant turnover. This was especially true during the past year when two of the three (67%) persons directly involved in the preparation of the FY 2003 report were no longer employed by A&R during the preparation of the FY 2004 report. This included the team leader of the team who had held this position for over twenty years. This was an underlying factor in most of the challenges experienced this year. Another GAAP knowledgeable staff person has been borrowed from another A&R team the past two years. This person will not be employed by A&R next year due to retirement in March 2005. This will be another key loss.

Staff continuity and retention are the two most critical factors in successfully preparing a GAAP compliant CAFR each year. There are numerous complex issues which must be addressed each year and data for the CAFR is obtained from a variety of dissimilar sources including: the statewide central accounting system (STARS); the State Treasurer; state agencies via accounting data surveys; audited CAFRs from certain state agencies, including CAFRs from 23 Regents' university component units in FY 2004; and implementation of additional GASB statements each year as required.

Retaining key staff is paramount in building the optimum level of skills and experience required for the annual preparation of the CAFR. A&R continues to explore ways to build knowledge experts through education and experience and to retain them for an extended period of years.